

AR49

ANNUAL REPORT - 1968

SR



SCURRY-RAINBOW
OIL LIMITED

SCURRY-RAINBOW OIL LIMITED

Incorporated under the Laws of the Province of Alberta, Canada

HEAD OFFICE

539 Eighth Avenue S.W., Calgary 2, Alberta

BOARD OF DIRECTORS

Peter Abt, Calgary, Alberta
Ole Bardahl, Seattle, Washington
John F. Langston, P.Eng., Calgary, Alberta
Peter Mackenzie, Montreal, Quebec
H. Neil Mallon, Dallas, Texas
Sidney A. Swensrud, Naples, Florida
Frank E. Taplin, M.B.E., Princeton, New Jersey
Vernon F. Taylor, Jr., Denver, Colorado

EXECUTIVE OFFICERS

Frank E. Taplin, M.B.E., President and Chairman
of the Board
Peter Abt, Executive Vice-President
Francis C. Finn, Vice-President
Norman C. Croome, Vice-President
Eugene H. Charko, C.A., Treasurer and Assistant
Secretary
Maclean E. Jones, Q.C., Secretary

REGISTRAR & TRANSFER AGENTS

Guaranty Trust Company of Canada, Calgary, Alberta;
Toronto, Ontario; Montreal, P.Q.; Vancouver, B.C.
The Canadian Bank of Commerce Trust Company,
New York, N.Y.

STOCK LISTINGS

American Stock Exchange, New York, N.Y.
Toronto Stock Exchange, Toronto, Ontario
Vancouver Stock Exchange, Vancouver, B.C.

AUDITORS

Price Waterhouse & Co., Calgary, Alberta

ANNUAL MEETING

The 1969 annual meeting of shareholders will be held Friday, February 14, 1969, at 10:00 a.m. at the Palliser Hotel, 133 Ninth Avenue S.W., Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.

THE REPORT IN BRIEF

	1968	1967
OPERATIONS FOR THE YEAR		
PRODUCTION		
Crude oil — net barrels per day	6,550	6,180
Natural gas — net mcf per day	9,385	8,385
FINANCIAL		
Gross revenue	\$ 7,210,000	\$ 6,662,000
Cash flow from operations	4,080,000	3,957,000
per share	1.66	1.88
Net earnings	1,365,000	1,428,000
per share	.56	.68
Capital expenditures	\$ 8,605,000	\$ 5,652,000
WELLS DRILLED ON COMPANY ACREAGE		
Successful oil and gas wells	33	48
Wells dry and abandoned	64	67
YEAR-END POSITION		
FINANCIAL		
Funds on hand	\$ 5,796,000	\$ 3,896,000
Long term debt due within one year	15,000	1,815,000
Working capital	5,781,000	2,081,000
Total long term debt	\$18,529,000	\$14,643,000
Shares outstanding	2,504,112	2,398,542
OIL AND GAS WELLS		
Total gross wells	4,529	3,945
Net working interest wells	223	182
Net royalty interest wells	210	202
LAND HOLDINGS		
Total gross acreage	10,900,000	8,590,000
Net working interest acreage	4,384,000	2,327,000
Net mineral acreage	1,406,000	1,354,000
Net royalty interest acreage	101,000	111,000
Net mining acreage	310,000	604,000

This report covers the fiscal year ended September 30, 1968 and all comparative figures and illustrations for prior years are given on the same fiscal year basis. All references to "Scurry-Rainbow" and "the Company" in this report, except where the context otherwise indicates, are to Scurry-Rainbow Oil Limited and its subsidiary companies.

TO THE SHAREHOLDERS:

Scurry-Rainbow's operations during 1968 were highlighted by major expansions into new oil and gas exploration areas and continued emphasis on an active mining exploration program. Major acreage acquisitions were made in the North Slope and Bristol Bay areas of Alaska and in the Mackenzie River Delta area of Northern Canada. A substantial coal deposit in the Elk River Valley of southeastern British Columbia was acquired by the Company.

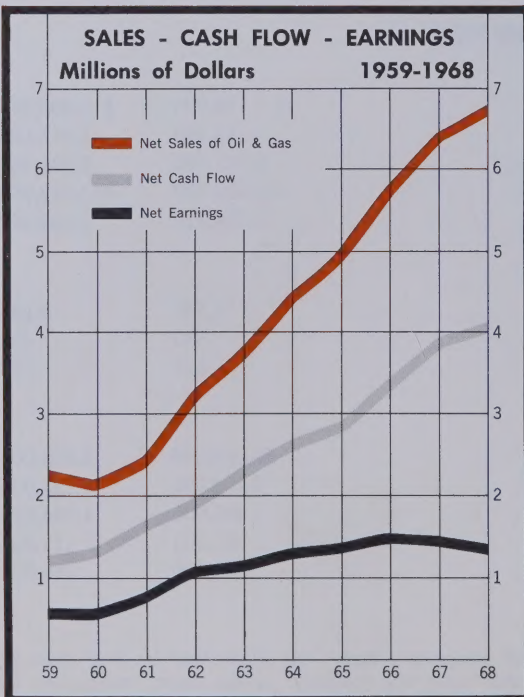
FINANCIAL

Earnings Summary	1968 (thousands of dollars)	1967	Increase (decrease)
Net sales of oil and gas . . .	\$6,750	\$6,339	6%
Other income	460	323	42%
Gross revenue	7,210	6,662	8%
Production expenses	1,429	1,137	26%
Administrative expenses . . .	539	496	9%
Interest on long term debt . .	1,162	1,072	8%
Cash flow	4,080	3,957	3%
Depletion and depreciation . .	2,573	2,396	7%
Other charges	142	133	7%
Net earnings	\$1,365	\$1,428	(4%)
Amounts per share			
Cash flow	\$ 1.66	\$ 1.88	(12%)
Net earnings	.56	.68	(18%)

The steady growth of the Company's production revenues continued during 1968 and a gain of 6% was recorded for net sales of oil and gas. Additional income from short term investment of surplus funds contributed to the 8% improvement in gross revenue for 1968 but increased production expenses attributable to well stimulations, waterflood programs and a general rise in field operating costs brought about a smaller percentage improvement in cash flow and a 4% reduction in net earnings for the year.

The decreased cash flow and net earnings on a per share basis reflect the increased number of shares outstanding during the 1968 fiscal year (2,458,258 shares were outstanding during 1968 as compared with 2,108,149 shares during 1967 both computed on the weighted average method) resulting primarily from the conversion of the balance of the 6¼% debentures issued in 1966 and the conversion of \$1,494,000 principal amount of the 7¼% debentures issued in 1968.

The sale by the Company in May, 1968 of \$20,000,000 principal amount of 7¼% convertible subordinated debentures (convertible into share capital at \$33⅓ per share) enabled the Company to retire all of its outstanding bank loans, which were repayable at the rate of \$2,160,000 per year, and served to increase the Company's working capital from \$2,081,239 at September 30, 1967 to \$5,781,336 at September 30, 1968. To December 31, 1968 debentures in the amount of \$3,079,000 have been converted into shares and as converted debentures may be applied by the Company against its sinking fund obligations, no funds will be required for debenture debt retirement for at least the next 7 years.



PRODUCTION

New production levels for crude oil and natural gas were established by the Company in 1968. Net production of crude oil increased 6.3% to 2,397,780 barrels for 1968, an average of 6,550 barrels per day, and net production of natural gas rose 12.3% to 3,435,791 mcf for the year, an average of 9,385 mcf per day. Total revenue for 1968 from the sale of crude oil amounted to \$5,787,149, an increase of 7% over 1967, and total revenue from the sale of natural gas, natural gas liquids and sulphur amounted to \$962,308, a gain of 3.6% over the previous year.

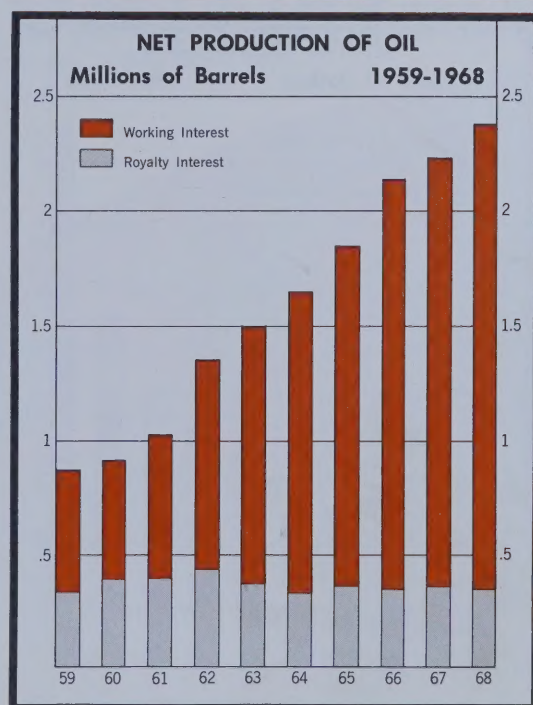
Scurry-Rainbow's 1968 drilling program added 5.4 net working interest wells and 11.8 net royalty interest wells to the production capacity of the Company. Early in the fiscal year Scurry-Rainbow purchased varying interests in 19 unitized and 16 non-unitized oil wells in southeastern Saskatchewan equivalent to 30.3 net working interest wells which complimented a pressure maintenance scheme instituted by the Company in the Workman field. At the year end the Company held participating interests in 3,951 unitized wells and 578 non-unitized wells representing 222.9 net working interest wells and 210.3 net royalty interest wells as summarized on page 7 of this report.

Following the successful results of the pressure maintenance scheme installed in the Workman-Frobisher Unit No. 1, Scurry-Rainbow formed Workman-Midale Unit No. 2 in the same general area and initiated a second waterflood project in that area. Both of these units are majority owned and operated by the Company. Scurry-Rainbow also participated in waterflood operations at Weasel in northeastern British Columbia and at Flat Lake and Wilmar in southeastern Saskatchewan. Stimulation treatments to improve or maintain producing rates and ultimately recover a larger portion of the oil reserves in place were carried out by the Company on a number of wells in Saskatchewan during the year. It is anticipated that full benefits from these well stimulations and the waterflood programs will accrue to the Company in 1969 and future years by way of increased production and reduced operating expenses.

Net Production of Oil	1968	1967
Alberta	472,264	457,639
British Columbia	620,553	590,847
Saskatchewan	1,282,485	1,182,854
Manitoba	22,478	24,547
Total barrels	<u>2,397,780</u>	<u>2,255,887</u>
Barrels per day	6,550	6,180

Net Production of Gas	1968	1967
Alberta	3,297,123	2,894,057
British Columbia	138,668	166,591
Total mcf	<u>3,435,791</u>	<u>3,060,648</u>
Mcf per day	9,385	8,385

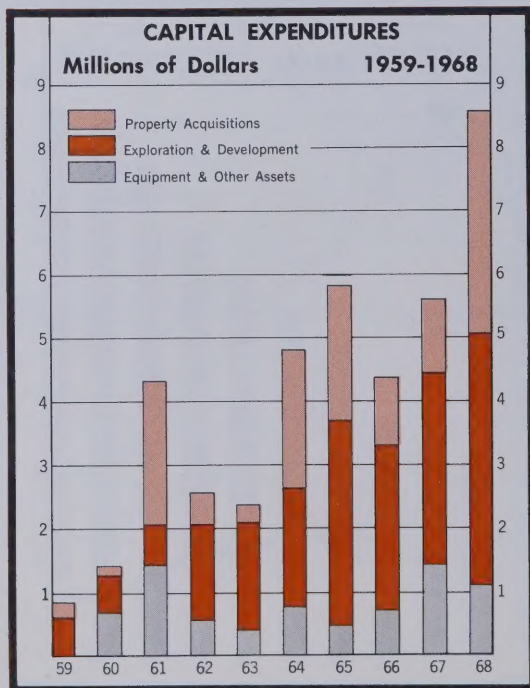
Net Sales of Oil and Gas	1968	1967
Crude oil	\$5,787,149	\$5,409,919
Natural gas and associated products	962,308	929,241
Total value	<u>\$6,749,457</u>	<u>\$6,339,160</u>



CAPITAL EXPENDITURES

Capital expenditures in 1968 totalled a record \$8.6 million (up 52% over 1967) surpassing the previous record of \$5.8 million established in 1965. While total expenditures on mining properties increased only 16% to \$1,283,249, total expenditures on oil and gas properties increased 62% to \$7,093,066 for the year. The substantial increase in oil and gas expenditures is attributable to the acquisition of acreage in Alaska (North Slope and Bristol Bay areas) and Northern Canada (Mackenzie River Delta area) and the purchase of producing properties in southeastern Saskatchewan (Workman field). An analysis of oil and gas expenditures is shown on page 5 and an analysis of mining expenditures is shown on page 9 of this report.

Summary of Capital Expenditures	1968	1967
Oil and gas properties	\$7,093,066	\$4,391,819
Mining properties	1,283,249	1,106,860
Other capital assets	228,588	153,169
Total capital expenditures	<u>\$8,604,903</u>	<u>\$5,651,848</u>



EXPLORATION AND DEVELOPMENT

Oil and Gas

During 1968 a major shift to the North in oil and gas exploration effort occurred in Western Canada's sedimentary basin. This shift in exploration emphasis was intensified by the major oil discoveries made by Atlantic Richfield Company at Prudhoe Bay on the North Slope of Alaska. By the year end virtually the entire Mackenzie River Basin, the Mackenzie River Delta offshore area, the Arctic Islands and the offshore areas surrounding these islands were held by oil companies under exploration permits. Total permit holdings by all companies in these areas now exceed 280 million acres which will require a major exploration effort by the entire Industry. Scurry-Rainbow has acreage representation in all of these prospective areas. This great move to the North did not significantly affect Scurry-Rainbow's exploration efforts in the southerly areas of the sedimentary basin. It appears that a major portion of the funds being spent in the North are not at the expense of the South but are being brought in from other areas in other parts of the world.

Scurry-Rainbow's 1968 drilling program resulted in 25 oil wells, 8 natural gas wells and 64 dry holes for a total of 97 wells of which 41 were drilled at no cost to the Company under farmout and other agreements. A further 49 wells were drilled on acreage directly offsetting Company holdings pursuant to option agreements with the Company.

ALASKA

Following the announcement by Atlantic Richfield Company last July of two major oil discoveries in the Prudhoe Bay area on the North Slope of Alaska, Scurry-Rainbow initiated an immediate acreage acquisition program and subsequently acquired a total of 366,940 gross acres (285,305 net acres) on the North Slope of Alaska. Two wells have since been located near the Company's acreage - one by Pan American Petroleum Corporation approximately 6 miles from a 7,500 acre block of Company acreage and the other by the Colorado Oil and Gas Corporation less than 12 miles from a 30,000 acre block of Company acreage.

The Company's holdings on the North Slope are in the form of priority filing rights for United States Federal oil and gas leases and are subject to the native claims which have been filed against virtually all of the onshore acreage in Alaska. This acreage was selected on the basis of known geological features and is in close proximity to land holdings of several major oil companies on which exploration activity is anticipated in the near future.

Scurry-Rainbow also acquired 20,134 acres of state lease rights in the Bristol Bay area on the Alaska Peninsula located approximately 400 miles southwest of the oil and gas production in Cook Inlet. This acreage has been farmed out by the Company with a well scheduled to be drilled on the 15,000 acre Port Heiden block. Under the farmout agreement the farmee is committed to drill the well to a depth of 15,000 feet on or before September 1, 1969 in order to earn a half interest in the acreage block.

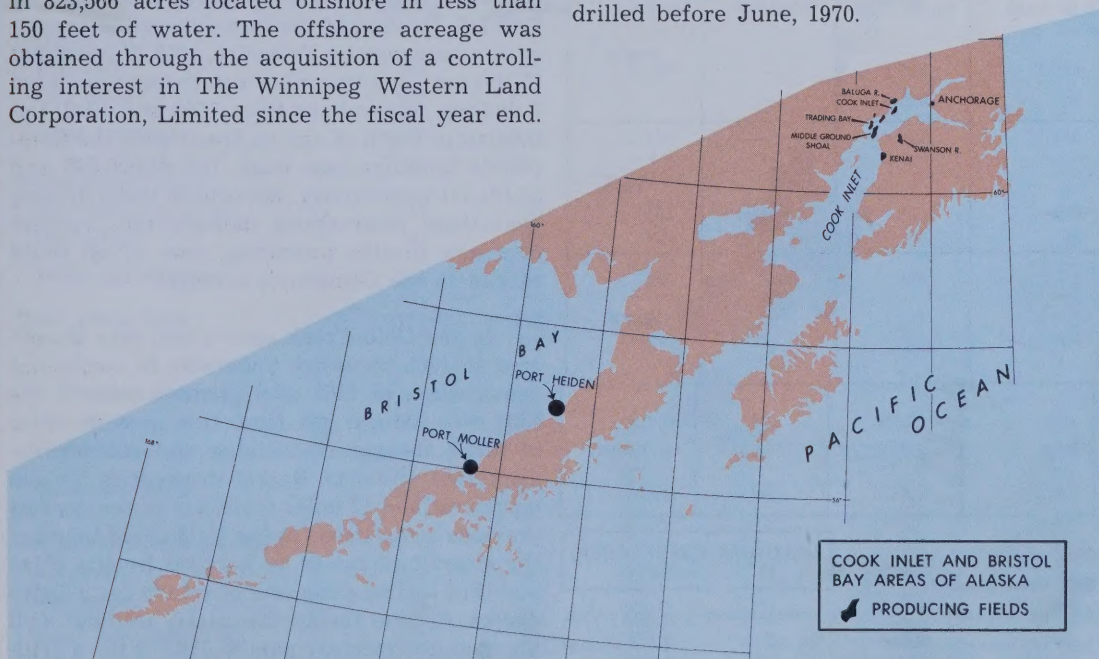
NORTHWEST TERRITORIES

In the Mackenzie River Delta area of Northern Canada approximately 350 miles east of the Prudhoe Bay area in the same geological basin, Scurry-Rainbow acquired a 100% interest in 430,004 acres located onshore and a 50% interest in 823,566 acres located offshore in less than 150 feet of water. The offshore acreage was obtained through the acquisition of a controlling interest in The Winnipeg Western Land Corporation, Limited since the fiscal year end.

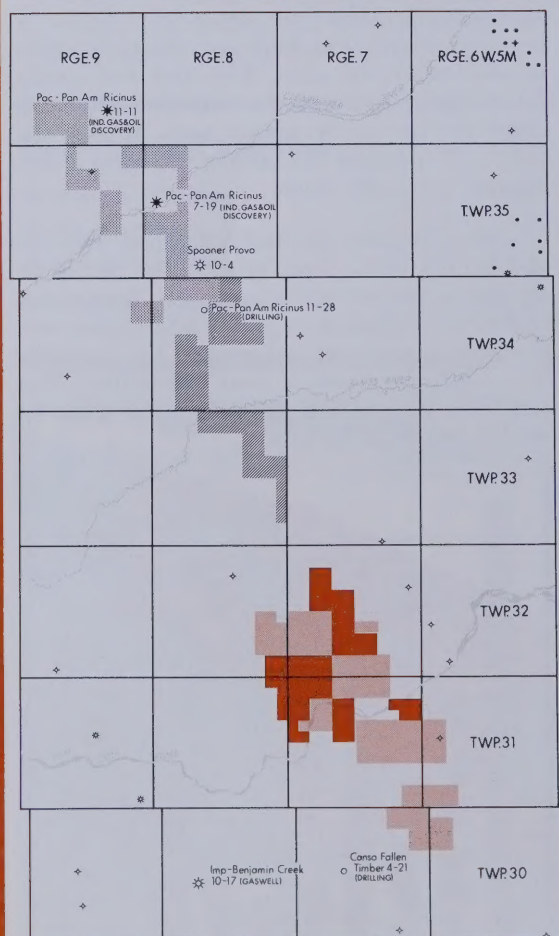
Capital Expenditures - Oil and Gas	1968	1967
Acreage acquisitions	\$3,507,615	\$ 975,535
Exploratory and development drilling	1,609,152	1,304,226
Geological and geophysical exploration	351,422	193,673
Rentals and other carrying charges	772,953	656,833
	<u>6,241,142</u>	<u>3,130,267</u>
Production equipment	851,924	1,261,552
Total for oil and gas properties	<u>\$7,093,066</u>	<u>\$4,391,819</u>

Drilling on the onshore block will commence before September 1, 1969 under a farmout agreement pursuant to which the farmee is required to drill 3 wells in order to earn a 50% interest in 331,000 acres. The first well under this farmout is a firm commitment while the other two are on an option basis. If only the first well is drilled the farmee will earn a 50% interest in 142,000 acres.

The Company also holds working interests in 1,601,225 gross acres (471,794 net acres) on the Arctic Islands which have been farmed out to Panarctic Oils Ltd. as part of a 55 million acre exploration program undertaken by Panarctic at an estimated cost of over \$20 million. The first well on the Company's acreage must be drilled before June, 1970.



Wells Drilled on Company Acreage					1968	1967
	Alta.	B.C.	Sask.	Yukon	Total	Total
Oil wells	5	3	17	—	25	43
Gas wells	5	3	—	—	8	5
Dry holes	18	9	36	1	64	67
Total wells	28	15	53	1	97	115
Net working interest wells						
Oil and gas . . .	1.7	.5	3.2	—	5.4	13.0
Dry holes	4.5	2.1	6.6	1.0	14.2	11.9
Net royalty interest wells						
Oil and gas . . .	1.1	.4	10.3	—	11.8	13.9
Dry holes	1.8	1.2	20.6	—	23.6	24.4



ALBERTA

In the Province of Alberta, Scurry-Rainbow participated in drilling 28 wells of which 5 were oil producers, 5 were gas producers and 18 were dry and abandoned. Three significant areas of exploration and development in Alberta are expected to produce favourable results in 1969.

A 5-well drilling program is underway in the Hairy Hill area northeast of the City of Edmonton where the Company made a triple zone sweet gas discovery in 1965. The Martin Hills extension to the pipeline system gathering gas for export through Trans-Canada Pipe Lines Limited will pass through the Company's acreage in this area and it is expected that a market will be readily available for this gas if additional reserves are located in the area.

In the Williams Creek area approximately 40 miles northwest of the City of Calgary, the Company farmed out 18,575 acres in the foothills sour gas belt with the farmee committed to drill a deep test (12,000 feet) on or off-setting the acreage to earn a 50% interest in half the acreage. The farmee has a right to drill a second similar test to earn a 50% interest in the balance of the acreage. Following this farmout the Company and the farmee jointly purchased an 11,040 acre drilling reservation comprising the corridors between the Company's acreage for \$165,710. Drilling of the farmout well is expected to commence by February, 1969. Subsequent to the year end two other companies purchased 2 drilling reservations (Nos. 1899 and 1900) immediately north of and on trend with the Company's holdings (see map) for \$2,600,666 and \$5,101,111 respectively. Reports on wells drilling near these reservations indicate the presence of a new prolific producing zone which could extend to the Company's acreage.

In the Gold Creek area which was discovered in 1965 plans are underway to commence construction in 1969 of a plant to process the sour wet natural gas from this area in order to make the gas marketable and recover the associated products. Recent discoveries 5 miles northwest and 12 miles southeast of the nearest previous completions in the field could increase the amount of gas to be handled by the plant and thus increase the rate of return for all producers. Around the northwesterly step-out well the operator recently paid \$3,110,100 for a drill-

ing reservation. Scurry-Rainbow has substantial acreage holdings in close proximity to both of these new wells.

BRITISH COLUMBIA

Scurry-Rainbow participated in drilling 15 wells in the Province of British Columbia during the year of which 3 were completed as oil wells, 3 as gas wells and 9 were dry and abandoned. The Company maintains a substantial acreage position in this province and has plans to drill several wildcats on its acreage holdings during the winter drilling season.

SASKATCHEWAN

The highlight of exploration activity in Saskatchewan during 1968 was the discovery of oil in the Devonian horizon by Scurry-Rainbow and its partners. The discovery well in the Kisbey area of southeastern Saskatchewan was drilled on Scurry-Rainbow acreage, under a farmout agreement, at no cost to the Company with the Company retaining a 50% interest. Subsequent to this discovery Scurry-Rainbow participated to the extent of 33 $\frac{1}{3}$ % in the purchase of a 3,680 acre drilling reservation off-setting the discovery well. Development

drilling to determine the ultimate size of the reservoir is presently underway.

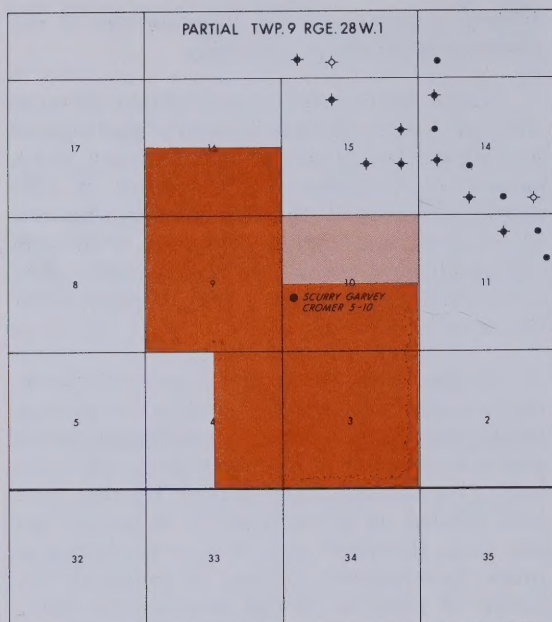
In the Ceylon area, approximately 85 miles west of Kisbey, Scurry-Rainbow participated in a second Devonian zone oil discovery which earned the Company a 25% interest in 1,280 acres. Subsequently the Company purchased a 50% interest in a further 4,720 acres. Geological and geophysical evaluations are currently being carried out and further drilling is planned for this area in the near future.

A significant Mississippian zone oil discovery was made by Scurry-Rainbow on acreage which was farmed out to the Company and which is adjacent to Company lands 1 $\frac{1}{2}$ miles east of the existing Innes oil pool. The discovery well yielded oil at the rate of 70 barrels per day from the same zone that is producing at Innes. Development drilling to determine the extent of reserves in this pool is now being carried out.

The Company participated in the drilling of a total of 53 wells in Saskatchewan during 1968 which resulted in 17 completed oil wells and 36 dry holes.

OIL AND GAS WELLS

	Alberta	British Columbia	Saskat- chewan	Manitoba	Total Sept. 30/68	Total Sept. 30/67
Unitized Wells						
Oil wells	1,361	222	2,159	—	3,742	3,233
Gas wells	209	—	—	—	209	150
Total unitized	1,570	222	2,159	—	3,951	3,383
Non-unitized Wells						
Oil wells	137	25	281	38	481	473
Gas wells	54	43	—	—	97	89
Total non-unitized	191	68	281	38	578	562
Total gross wells	1,761	290	2,440	38	4,529	3,945
Net Working Interest Wells						
Oil wells	49.6	23.7	121.9	8.3	203.5	164.1
Gas wells	15.1	4.3	—	—	19.4	18.2
Total net wells	64.7	28.0	121.9	8.3	222.9	182.3
Net Royalty Interest Wells						
Oil wells	29.1	—	175.2	.6	204.9	197.1
Gas wells	4.4	1.0	—	—	5.4	4.8
Total net wells	33.5	1.0	175.2	.6	210.3	201.9



- LEASES
- OPTION LANDS
- OIL WELL
- ABANDONED

CROMER AREA
MANITOBA

Through the acquisition of a controlling interest in The Winnipeg Western Land Corporation, Limited subsequent to the year end, Scurry-Rainbow obtained a further 380,000 acres of mineral rights in Saskatchewan, most of which are presently under lease to major companies. Total mineral holdings in Saskatchewan now exceed 1,750,000 net acres.

MANITOBA

Scurry-Rainbow moved actively into exploration in the Province of Manitoba during 1968 with the acquisition of a 50% working interest in 7,920 acres in the Virden-Cromer area and the subsequent acquisition of 20,000 acres of mineral rights through The Winnipeg Western Land Corporation, Limited. The drilling of 2 exploratory wells on this acreage resulted in a Mississippian zone oil discovery in the Cromer area. Production tests are currently underway on the discovery well and initial indications are that the well is capable of producing in excess of 100 barrels of oil per day. Further development and step-out drilling is planned for this area in the near future.

OIL AND GAS ACREAGE

	Gross Acres	Net Working Interests	Net Mineral Interests	Net Royalty Interests
Petroleum and natural gas leases	1,865,010	633,428	—	—
Gross overriding royalties on leases	268,570	—	—	40,236
Reservations and permits	5,979,932	3,750,209	—	—
Oil and gas titles	138,924	—	63,222	—
Gross royalties in freehold land	302,297	—	—	60,734
Mineral titles and mineral leases	1,811,025	—	1,342,610	—
	<u>10,365,758</u>	<u>4,383,637</u>	<u>1,405,832</u>	<u>100,970</u>
Western Canada				
Alberta	1,634,123	574,689	11,814	86,647
British Columbia	667,954	56,686	—	12,838
Saskatchewan	3,030,594	769,342	1,390,019	1,183
Manitoba	15,530	1,259	3,999	302
Northern Canada				
Arctic Islands	1,601,225	471,794	—	—
Yukon	1,652,188	1,239,141	—	—
Northwest Territories	1,253,570	841,787	—	—
Total Canadian acreage	<u>9,855,184</u>	<u>3,954,698</u>	<u>1,405,832</u>	<u>100,970</u>
Foreign Jurisdictions				
Alaska	387,074	305,439	—	—
Turkey	123,500	123,500	—	—
Total acreage at September 30, 1968	<u>10,365,758</u>	<u>4,383,637</u>	<u>1,405,832</u>	<u>100,970</u>

Other Minerals

COAL

During the year the Company acquired a substantial coal deposit in the Elk River Valley of southeastern British Columbia. Following this acquisition Scurry-Rainbow entered into an agreement with The North American Coal Corporation which provided for an exploration program and a production feasibility study on the coal deposit. Although neither program is complete, initial indications are that this is a large coal deposit, a substantial portion of which will be amenable to open-pit mining techniques.

Initial contacts to market metallurgical coal from this deposit to steel mills in Japan have already been made and negotiations for markets in Canada and the United States are also being actively pursued. If the property is placed on production Scurry-Rainbow and North American Coal will each have a 50% interest in the venture.

SULPHUR

Exploration on the Company's sulphur property in Bolivia was continued during the year. Pilot plant operations to determine the most economical extraction process are in progress through the facilities of the Colorado School of Mines Research Foundation at Golden, Colorado and Dorr-Oliver Incorporated at Stamford, Connecticut. Final results of these studies should be available to the Company early in 1969.

METALS

Scurry-Rainbow carried out an active metals exploration program in Western Canada during the year. Exploration work was done on a number of prospects and diamond drilling is presently in progress on a copper prospect in southern British Columbia. The Company also holds several other prospects which warrant further work and diamond drilling. A continuous evaluation of mining prospects is being carried out and your management is confident that this diversification will benefit Scurry-Rainbow by providing a broader base for future growth and expansion.

Capital Expenditures - Mining	1968	1967
Property acquisitions	\$ 20,400	\$ 233,263
Exploration	1,035,816	738,112
Rentals and other carrying charges	227,033	135,485
Total for mining properties . . .	<u>\$1,283,249</u>	<u>\$1,106,860</u>

Mining Acreage	Gross	Net
Coal mining properties	57,588	57,588
Potash permits and leases	156,431	156,431
Mineral prospecting permit	217,752	21,775
Mining claims	102,207	74,199
	<u>533,978</u>	<u>309,993</u>

Canada		
Alberta	41,868	41,868
British Columbia	52,199	24,609
Saskatchewan	411,908	215,513
Manitoba	9,718	9,718
Northwest Territories	5,674	5,674
Nova Scotia	8,960	8,960
Foreign Jurisdictions		
Bolivia	3,651	3,651
Total at September 30, 1968 . . .	<u>533,978</u>	<u>309,993</u>

The continued interest of the shareholders in the affairs of the Company and the excellent performance of the employees, which contributed to the progress of the Company during the past year, are both appreciated by the Board of Directors.

Frank C. Japlin

President and Chairman of the Board

Stes

Executive Vice-President

January 6, 1969

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

FIVE YEAR OPERATING SUMMARY

1968

1967

1966

1965

1964

OIL AND GAS PRODUCTION	Crude oil					
	Net barrels for the year	2,398,000	2,256,000	2,137,000	1,827,000	1,632,000
	Average per day	6,550	6,180	5,855	5,005	4,460
	Natural gas					
	Net mcf for the year	3,436,000	3,061,000	2,989,000	2,806,000	2,226,000
	Average per day	9,385	8,385	8,190	7,685	6,080
WELLS DRILLED ON COMPANY ACREAGE	Total gross wells					
	Successful oil and gas wells	33	48	65	68	59
	Wells dry and abandoned	64	67	66	47	56
	Net working interest wells					
	Successful oil and gas wells	5	13	11	22	18
	Wells dry and abandoned	14	12	22	12	14
	Net royalty interest wells					
	Successful oil and gas wells	12	14	25	16	8
	Wells dry and abandoned	24	24	19	10	21
PRODUCING OIL AND GAS WELLS	Total gross wells					
	Unitized wells	3,951	3,383	3,167	3,134	3,015
	Non-unitized wells	578	562	594	541	492
	Net working interest wells					
	Oil wells	204	164	154	140	119
	Gas wells	19	18	18	15	11
	Net royalty interest wells					
	Oil wells	205	197	202	180	166
	Gas wells	5	5	5	6	4
LAND HOLDINGS	Total gross acreage	10,900,000	8,590,000	8,676,000	7,866,000	11,575,000
	Net acreage					
	Working interest acreage	4,384,000	2,327,000	2,389,000	2,177,000	2,399,000
	Mineral acreage	1,406,000	1,354,000	1,355,000	1,343,000	1,343,000
	Royalty interest acreage	101,000	111,000	135,000	135,000	190,000
	Mining acreage	310,000	604,000	720,000	641,000	5,000



CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1968

(Canadian dollars)

	1968	1967
Sales, less royalties	\$ 5,849,099	\$ 5,453,966
Royalty income	900,358	885,194
Investment and other income	460,351	322,428
	<u>7,209,808</u>	<u>6,661,588</u>
Production expenses	1,428,642	1,136,767
Administrative and general expenses	538,973	495,811
Interest on long term debt	1,162,268	1,072,121
	<u>3,129,883</u>	<u>2,704,699</u>
Cash flow from operations	<u>4,079,925</u>	<u>3,956,889</u>
Depletion and depreciation	2,572,383	2,395,932
Mining properties abandoned	74,705	55,300
Other charges—net	15,029	35,939
Minority interests in net earnings of subsidiaries	52,553	41,533
	<u>2,714,670</u>	<u>2,528,704</u>
Net earnings for the year (Note 4)	1,365,255	1,428,185
Retained earnings at beginning of year	8,849,414	7,421,229
Retained earnings at end of year	<u>\$10,214,669</u>	<u>\$ 8,849,414</u>

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies
CONSOLIDATED BALANCE SHEET
 AT SEPTEMBER 30, 1968 (Canadian Dollars)

ASSETS

	1968	1967
CURRENT ASSETS:		
Cash	\$ 6,144,688	\$ 4,068,917
Government bonds, at cost	73,458	—
Accounts receivable	1,138,106	1,159,592
Inventory of materials and supplies, at cost	96,774	97,654
Prepaid expenses	65,092	67,911
	<u>7,518,118</u>	<u>5,394,074</u>
INVESTMENTS AND OTHER ASSETS:		
Investments, at cost —		
Shares of Minerals Ltd., 50% owned	2,211,830	2,211,830
Shares of associated companies	1,507,359	1,507,359
Securities of other companies	694,382	680,102
Deposits and advances	205,758	275,628
	<u>4,619,329</u>	<u>4,674,919</u>
CAPITAL ASSETS, at cost: (Note 1)		
Petroleum and natural gas and other mineral interests	50,119,502	43,917,294
Less—Accumulated depletion	(12,206,268)	(10,063,326)
Mining properties, non-producing	4,039,237	2,830,693
Land	1,318,643	1,328,245
Production equipment	6,540,332	5,732,185
Buildings and other equipment	1,034,962	817,138
Less—Accumulated depreciation	(3,016,852)	(2,663,566)
	<u>47,829,556</u>	<u>41,898,663</u>
DEFERRED CHARGES:		
Organization and share issue expense	267,455	252,667
Debenture discount and expense, less amortization	635,250	21,351
Other charges, less amortization	104,226	116,748
	<u>1,006,931</u>	<u>390,766</u>
	<u>\$60,973,934</u>	<u>\$52,358,422</u>

LIABILITIES

	1968	1967
CURRENT LIABILITIES:		
Accounts payable	\$ 1,161,879	\$ 1,422,280
Accrued interest	559,903	75,555
Long term debt due within one year	15,000	1,815,000
	<u>1,736,782</u>	<u>3,312,835</u>
LONG TERM DEBT:		
Bank loans at current rate of interest (secured)	—	14,000,000
5% Mortgage due January 1, 1970, repayable \$3,750 per quarter	22,500	37,500
7¼% Convertible subordinated debentures due May 1, 1988 (Note 2)	18,506,000	—
6¼% Convertible subordinated debentures due December 15, 1985	—	605,000
	<u>18,528,500</u>	<u>14,642,500</u>
Less—Amounts due within one year	15,000	1,815,000
	<u>18,513,500</u>	<u>12,827,500</u>
MINORITY INTERESTS in subsidiary companies	2,803,944	2,555,499
SHAREHOLDERS' EQUITY: (Note 3)		
Share capital—		
Authorized—7,500,000 shares, par value \$3.50 each		
Issued—2,504,112 shares	8,764,392	8,459,647
Contributed surplus	18,940,647	16,756,219
Retained earnings, per statement attached	10,214,669	8,849,414
	<u>37,919,708</u>	<u>34,065,280</u>
Less—18,500 shares held by subsidiaries, at cost	—	402,692
	<u>37,919,708</u>	<u>33,662,588</u>
APPROVED ON BEHALF OF THE BOARD:		
Peter Abt, Director		
J. F. Langston, Director		
	<u>\$60,973,934</u>	<u>\$52,358,422</u>



CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1968

(Canadian dollars)

	1968	1967
Source of Funds:		
Cash flow from operations	\$ 4,079,925	\$ 3,956,889
Long term bank loans	2,000,000	1,500,000
Issuance of \$20,000,000 principal amount of debentures	19,298,858	—
Issuance of Company stock—		
Upon exercise of employee options	261,000	251,000
Upon conversion of debentures	2,099,000	5,675,000
Sale of Company stock held by subsidiaries	803,157	—
Other sources	137,837	150,000
	<u>28,679,777</u>	<u>11,532,889</u>
Add—Funds at beginning of year	3,896,239	6,636,964
	<u>32,576,016</u>	<u>18,169,853</u>
Use of Funds:		
Acquisition of property	3,528,015	1,208,798
Exploration and development	3,996,376	3,028,329
Purchase of equipment and other capital assets	1,080,512	1,414,721
Acquisition of shares in—		
Associated companies	—	1,198,056
Other companies	43,985	129,987
Retirement of long term debt—		
By payments on bank loans and mortgage	16,015,000	1,515,000
By conversion of debentures into shares	2,099,000	5,675,000
Other purposes	16,792	103,723
	<u>26,779,680</u>	<u>14,273,614</u>
Funds remaining at end of year	5,796,336	3,896,239
Less—Long term debt due within one year	15,000	1,815,000
Working capital at end of year	<u>\$ 5,781,336</u>	<u>\$ 2,081,239</u>

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING PRACTICES:

The companies follow the full cost method of accounting for petroleum and natural gas and other mineral interests whereby all costs incurred for the exploration and development of oil and gas reserves and other mineral reserves within the same properties, including exploration overhead, are capitalized whether productive or unproductive and proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion is computed on the total of all such costs (other than costs applicable to properties, recently acquired, in foreign jurisdictions including Alaska which may be amortized on a separate basis) by the unit of production method based on the total estimated reserves of oil, gas and other saleable products, including potash reserves which are situated within potash ore bodies being developed by other companies. Depreciation of production equipment is computed on related reserves in a similar manner.

The costs of mining properties, consisting of potash permits, coal properties and other mining claims, include prospecting, exploration and preliminary development expenditures, all of which are capitalized on an area basis. Abandoned mining properties are written off when all properties in an area are surrendered.

2. DEBTURE DEBT:

The 7½% convertible subordinated debentures are convertible into shares of the Company at any time before May 1, 1978 at \$33⅓ per share, such conversion price being subject to adjustment in specified circumstances. The Company will be required to provide a sinking fund sufficient to retire \$1,067,000 principal amount of debentures on November 1 in each of the years 1973 to 1987 inclusive. During the fiscal year debentures in the principal amount of \$1,494,000 have been converted into 44,820 shares and the amount of debentures so converted may be applied by the Company against its sinking fund obligations.

3. SHAREHOLDERS' EQUITY:

The changes in issued share capital and contributed surplus during the year ended September 30, 1968 are summarized below:

	Number of shares	Share capital (par value)	Contributed surplus
Balance at September 30, 1967	2,417,042	\$8,459,647	\$16,756,219
Issued for cash upon exercise of employee stock options	12,000	42,000	219,000
Issued upon conversion of debentures - 6¼% debentures due December 15, 1985	30,250	105,875	499,125
7½% debentures due May 1, 1988	44,820	156,870	1,337,130
Unamortized debenture discount and expense applicable to debentures converted into shares	—	—	(73,676)
Profit on disposal of Company shares held by subsidiaries, after minority interests	—	—	202,849
Balance at September 30, 1968	<u>2,504,112</u>	<u>\$8,764,392</u>	<u>\$18,940,647</u>

At September 30, 1968 a total of 708,908 shares were reserved for issuance as follows:

120,000 shares under the provisions of a stock option plan for officers and key employees.

555,180 shares upon conversion of the 7½% convertible subordinated debentures.

33,728 shares in exchange for shares of The Winnipeg Western Land Corporation, Limited.

The stock option plan adopted by the Board of Directors on May 13, 1968 provides for the granting of options covering an aggregate of 120,000 shares to officers and key employees for terms of 5 years at prices not less than 95% of the market value of the Company's shares. Stock option transactions from May 13, 1968 under this plan and other stock option transactions with officers and employees prior to May 13, 1968 are summarized below for the year ended September 30, 1968:

	Option price per share	Number of shares	
		Prior to May 13, 1968	From May 13, 1968
Option outstanding at September 30, 1967	\$21.75	12,000	—
Options granted	40.85	65,000	—
	32.30	—	25,000
Options surrendered	40.85	(65,000)	—
Option exercised	21.75	(12,000)	—
Option outstanding at September 30, 1968 expiring May 13, 1973	32.30	—	25,000

The option on 25,000 shares outstanding at September 30, 1968 shall become exercisable upon shareholder approval of the May 13, 1968 stock option plan and, if such approval is not obtained by March 31, 1969, the option will terminate.

The Trust Indenture under which the 7½% convertible subordinated debentures have been issued contains certain dividend restrictions providing essentially that dividends may be paid only to the extent of consolidated net earnings accumulated subsequent to January 31, 1968 and the net consideration received from the issue of the Company's shares after January 31, 1968.

4. INCOME TAXES:

Under Canadian income tax law, oil and gas drilling and exploration expenses incurred in Canada, including costs of leases, permits and reservations, all of which are capitalized in the companies' accounts and subsequently amortized, are deducted in computing income as incurred, or, if such expenditures exceed the income for the year, the excess is carried forward and applied as income becomes available. Exploration expenses on mining properties are deductible on the same basis. For the 1968 fiscal year such deductions exceeded income and therefore no provision for income taxes was required. At September 30, 1968 unclaimed drilling and exploration expenditures and undepreciated capital cost of production equipment and other depreciable assets for tax purposes amounted to approximately \$13,000,000 and \$6,000,000 respectively.

Under the deferred tax accounting concept whereby provision for income taxes is also made on the excess of allowances claimed over the recorded depreciation, depletion and other deductions charged against earnings, the companies' provisions for deferred income taxes would have been \$715,000 for the 1968 fiscal year (\$699,000 for 1967) and \$5,165,000 on a cumulative basis to September 30, 1968.

5. STATUTORY INFORMATION:

The aggregate direct remuneration paid by the Company and its subsidiaries to all directors and senior officers of the Company was \$204,255 for the year ended September 30, 1968.

6. SUBSEQUENT EVENT:

Subsequent to September 30, 1968 the Company acquired an additional 58.7% of the outstanding shares of The Winnipeg Western Land Corporation, Limited (previously 41.2% owned by the Company) in consideration for \$1,309,126 which was satisfied by the issuance of 33,689 shares of the Company and the payment of \$79,477 cash.

AUDITORS' REPORT

To the Shareholders of
SCURRY-RAINBOW OIL LIMITED:

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1968 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 16, 1968

PRICE WATERHOUSE & CO.
Chartered Accountants.

**TEN YEAR
FINANCIAL
SUMMARY**

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Calgary, Alberta
December 16, 1968

PRICE WATERHOUSE & CO.
Chartered Accountants.

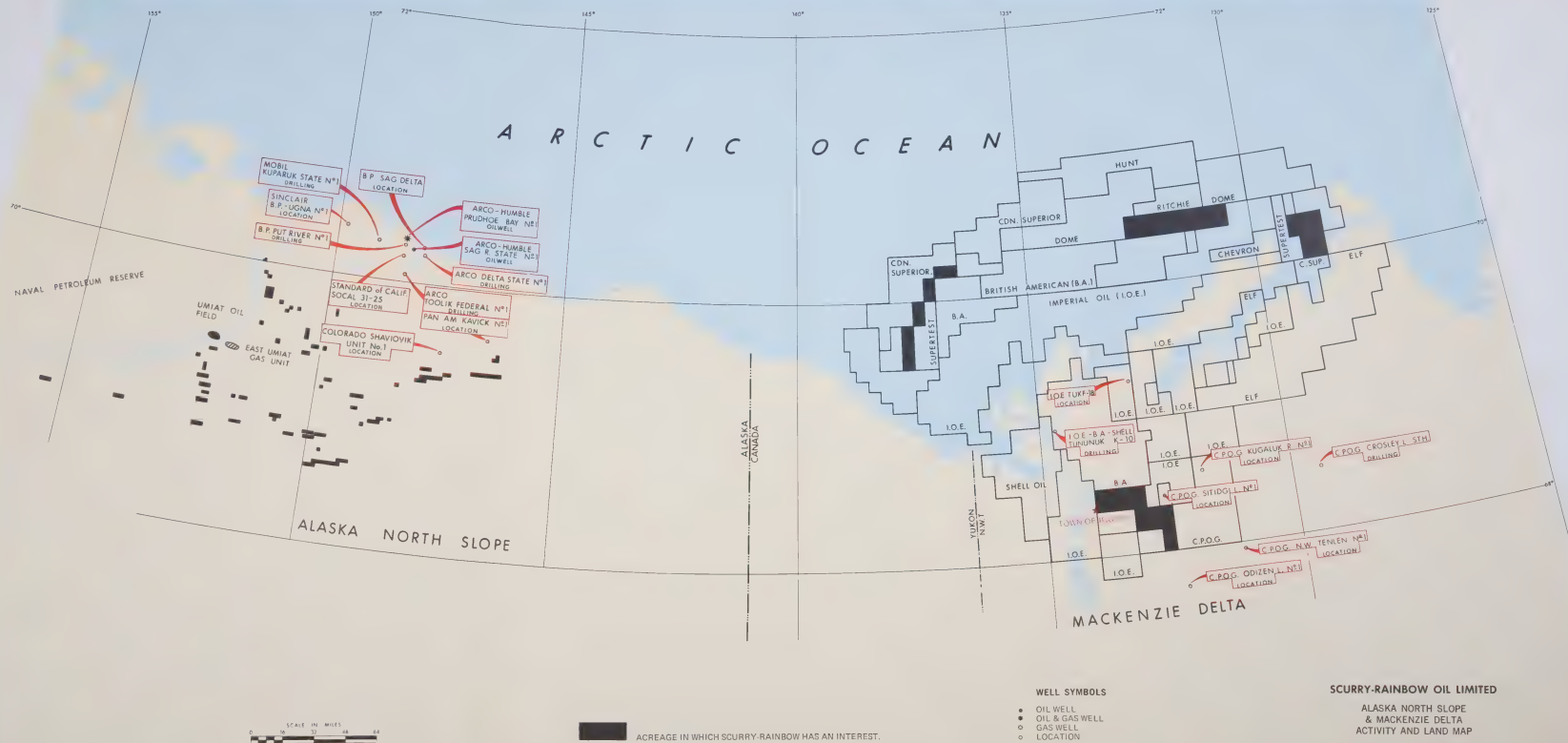
SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

TEN YEAR FINANCIAL SUMMARY

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
EARNINGS STATEMENT	Net sales of oil and gas	\$ 6,750,000	\$ 6,339,000	\$ 5,770,000	\$ 4,992,000	\$ 4,463,000	\$ 3,845,000	\$ 3,336,000	\$ 2,398,000	\$ 2,166,000
	Other income	460,000	323,000	448,000	193,000	400,000	166,000	163,000	316,000	116,000
	Gross revenue	7,210,000	6,662,000	6,218,000	5,185,000	4,863,000	4,011,000	3,499,000	2,714,000	2,282,000
	Operating expenses	1,968,000	1,633,000	1,612,000	1,470,000	1,592,000	1,277,000	1,167,000	864,000	816,000
	Interest on long term debt	1,162,000	1,072,000	1,173,000	772,000	631,000	436,000	290,000	238,000	159,000
	Taxes on income	—	—	—	—	—	—	45,000	(1,000)	33,000
	Cash flow	4,080,000	3,957,000	3,433,000	2,943,000	2,640,000	2,298,000	1,997,000	1,613,000	1,274,000
	Depletion, depreciation and other charges — net	2,715,000	2,529,000	1,954,000	1,617,000	1,461,000	1,258,000	974,000	894,000	786,000
	Net earnings	1,365,000	1,428,000	1,479,000	1,326,000	1,179,000	1,040,000	1,023,000	719,000	488,000
	Amounts per share*									
CAPITAL EXPENDITURES	Cash flow	1.66	1.88	1.70	1.49	1.38	1.21	1.04	.84	.67
	Net earnings	.56	.68	.73	.67	.61	.55	.53	.37	.26
	Acquisition of property	3,528,000	1,209,000	1,159,000	2,120,000	2,192,000	253,000	542,000	2,269,000	203,000
	Exploration and development	3,996,000	3,028,000	2,460,000	3,186,000	1,751,000	1,607,000	1,465,000	680,000	611,000
	Production equipment	852,000	1,262,000	687,000	316,000	846,000	428,000	526,000	234,000	40,000
BALANCE SHEET	Other capital assets	229,000	153,000	93,000	133,000	10,000	32,000	21,000	1,112,000	(40,000)
	Total expenditures	8,605,000	5,652,000	4,399,000	5,755,000	4,799,000	2,320,000	2,554,000	4,295,000	814,000
	Current assets	7,518,000	5,394,000	7,457,000	3,540,000	3,790,000	4,169,000	3,600,000	3,475,000	2,833,000
	Current liabilities	1,737,000	3,313,000	2,335,000	2,746,000	3,012,000	3,336,000	2,823,000	2,910,000	1,310,000
	Working capital	5,781,000	2,081,000	5,122,000	794,000	778,000	833,000	777,000	565,000	1,523,000
	Investments and advances	4,619,000	4,675,000	3,397,000	2,781,000	3,515,000	2,597,000	287,000	353,000	350,000
	Capital assets — net	47,830,000	41,899,000	38,698,000	36,099,000	30,656,000	27,195,000	22,609,000	20,869,000	17,007,000
	Deferred charges	1,007,000	391,000	626,000	372,000	365,000	390,000	309,000	301,000	357,000
	Capital employed	59,237,000	49,046,000	47,843,000	40,046,000	35,314,000	31,015,000	23,982,000	22,088,000	19,237,000
	Long term debt — net	18,514,000	12,828,000	18,818,000	13,943,000	11,192,000	9,103,000	4,357,000	3,454,000	1,892,000
	Minority interests in subsidiaries	2,803,000	2,555,000	2,515,000	2,395,000	1,910,000	1,872,000	198,000	224,000	202,000
	Shareholders' equity	\$37,920,000	\$33,663,000	\$26,510,000	\$23,708,000	\$22,212,000	\$20,040,000	\$19,427,000	\$18,410,000	\$17,143,000
	Shares outstanding									
	At the year end	2,504,112	2,398,542	2,092,792	1,989,677	1,977,183	1,909,201	1,920,922	1,920,908	1,920,305
	Average for the year*	2,458,258	2,108,149	2,025,076	1,980,274	1,918,060	1,898,219	1,920,914	1,920,856	1,910,332

SCURRY-RAINBOW OIL LTD.

**ALASKA NORTH SLOPE
& MACKENZIE DELTA
ACTIVITY AND LAND MAP**



|SR|

A copy of this prospectus has been filed with the Registrar of Companies, Province of Alberta.
No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.
This prospectus is not, and under no circumstances is to be construed as, a public offering of any of these securities for sale in the United States of America or in the territories or possessions thereof.

New Issue**\$20,000,000****Scurry-Rainbow Oil Limited**

(Incorporated under the laws of the Province of Alberta)

• % Convertible Subordinated Debentures
(Unsecured)

To be dated May 1, 1968

To mature May 1, 1988

Principal and half-yearly interest (May 1 and November 1) and premium, if any, will be payable in lawful money of Canada at any branch, at the option of the holder, in Canada of the chartered bank to be designated in the Debentures. Debentures will be available in coupon form, with provision for registration as to principal, in the denomination of \$1,000 and in fully registered form in denominations of \$1,000 and integral multiples thereof. Debentures in coupon and fully registered forms will be interchangeable in equal aggregate principal amounts and will be registrable and transferable in Calgary, Toronto and Montreal.

Conversion Privilege and Subordination

The Debentures will be convertible into shares of the capital stock of the Company having a par value of \$3.50 each at any time before May 1, 1978, at the rate of \$ • per share, except that such privilege will terminate at the close of business on the last business day prior to any redemption date as to Debentures called for redemption on such date. To protect against dilution, the conversion price will be subject to adjustment in certain cases. The payment of the principal of and interest and premium, if any, on the Debentures will be subordinated in right of payment to the prior payment in full of certain present and future indebtedness of the Company, comprising generally all indebtedness other than indebtedness for services and indebtedness specifically expressed not to be superior in right of payment to the Debentures.

The Debentures will be redeemable at the option of the Company at any time as a whole, or from time to time in part, on not less than 30 days' notice, for other than sinking fund purposes, at the principal amount thereof plus a premium of •% of such principal amount if redeemed in the 12 month period beginning May 1, 1968; such premium decreasing by 0. • of 1% of such principal amount on May 1, 1969, by a further 0. • of 1% of such principal amount on each succeeding May 1 to and including May 1, 19 •, and by a further 0. • of 1% of such principal amount on May 1, 19 •; and on and after such date until maturity at the principal amount thereof; together in each case with accrued and unpaid interest to the date fixed for redemption. The Company will have the right, at any time and from time to time, to purchase Debentures in the open market or by tender or private contract at any price not exceeding the redemption price thereof, applicable at the time of purchase for other than sinking fund purposes, plus costs of purchase.

The Company will covenant to provide a sinking fund for the Debentures sufficient to retire on November 1, 1973, and annually on November 1 of each year thereafter to and including 1987, \$1,067,000 principal amount of Debentures. Debentures will be redeemable from time to time by the Company for sinking fund purposes, on not less than 30 days' notice, at the principal amount thereof together with accrued and unpaid interest to the date fixed for redemption. The Company may receive credit against sinking fund payments for the principal amount of Debentures acquired and surrendered for cancellation, redeemed (other than through the operation of the sinking fund) or converted into shares.

Trustee: Guaranty Trust Company of Canada

	Price to Public (1)	Underwriting Discount	Proceeds to Company (1) (2)
Per Unit	\$ 1,000	\$ 30	\$ 970
Total	\$20,000,000	\$ 600,000	\$19,400,000

(1) Plus accrued interest, if any, to the date of delivery.

(2) Before expenses estimated at \$65,000.

We, as principals, offer these • % Convertible Subordinated Debentures, subject to prior sale and change in price, if, as and when issued by Scurry-Rainbow Oil Limited and accepted by us, and subject to the approval of all legal matters on behalf of the Company by Messrs. Chambers, Saucier, Jones, Peacock, Black, Gain & Stratton, Calgary, and on our behalf by Messrs. Campbell, Godfrey & Lewtas, Toronto, who will rely on the opinion of Messrs. Chambers, Saucier, Jones, Peacock, Black, Gain & Stratton with respect to the incorporation, organization, powers and standing of the Company.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that Debentures in definitive form will be available for delivery on or about May 1, 1968.

DOMINION SECURITIES CORPORATION LIMITED

Established 1901

TORONTO
HALIFAX
KITCHENERMONTREAL
SAINT JOHN
HAMILTONOTTAWA
QUEBEC
BRANTFORDVANCOUVER
WINNIPEG
ST. CATHARINESNEW YORK
CALGARY
EDMONTON
FORT WILLIAMLONDON
VICTORIAPARIS
LONDON
PETERBOROUGH

Printed in Canada

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the Securities Commission in each of the provinces of Ontario, Alberta and Saskatchewan but which has not yet become final for the purpose of a primary distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold to, nor may offers to buy be accepted from, residents of such provinces prior to the time a receipt for the final prospectus is obtained from the appropriate Securities Commission.

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The Company

Scurry-Rainbow Oil Limited (herein sometimes called the "Company") was incorporated on February 5, 1954 under the laws of the Province of Alberta by Memorandum of Association. Amendments have been made to the Memorandum of Association by Certificates of the Registrar of Companies dated respectively May 9, 1957, February 16, 1959 and March 9, 1964. The Certificate dated May 9, 1957 confirmed an increase of the authorized capital from \$5,000,000 divided into 10,000,000 shares having a par value of 50¢ each to \$12,500,000 divided into 25,000,000 shares having a par value of 50¢ each. The Certificate dated February 16, 1959 confirmed an increase of the authorized capital to \$12,600,000 divided into 25,200,000 shares having a par value of 50¢ each and the consolidation of such 25,200,000 shares into 3,600,000 shares having a par value of \$3.50 each. The Certificate dated March 9, 1964 confirmed an increase of the authorized capital to \$26,250,000 divided into 7,500,000 shares having a par value of \$3.50 each.

The Company's head and principal office is located at 539 8th Avenue S.W., Calgary, Alberta, Canada.

Major Corporate Acquisitions

In 1954 the Company made a share exchange offer to the shareholders of Scurry Oils Limited and Rainbow Oil Limited. Pursuant to these offers, the Company acquired all the outstanding shares of Rainbow and 99.3% of the outstanding shares of Scurry. Subsequently the Company acquired the assets and undertakings of both Rainbow and Scurry consisting principally of oil and natural gas rights in Alberta, subject, in the case of Scurry, to outstanding minority interests.

In 1957 the Company acquired the assets and undertaking of Canadian Pipelines & Petroleum Ltd. for shares of the Company and the assumption of liabilities. These assets consisted not only of interests in oil and gas properties but also majority shareholdings in Farmers Mutual Petroleum Ltd., Freeholders Oil Company Limited and six other companies.

In 1963 the Company and its subsidiaries acquired all the outstanding shares of Agawam Oil Co. Ltd. and half the outstanding shares of Minerals Ltd., which companies held substantial petroleum and natural gas interests in Saskatchewan. During the same year a series of transactions resulted in the Company and its subsidiaries owning a majority interest in Plains Petroleum Limited, which had succeeded to the assets and undertakings of Calalta Petroleum Ltd. and Phillips Oil Company Limited. These last three companies together held varying interests in petroleum and natural gas under approximately 380,000 acres of land in the foothills belt of Alberta.

In 1964 Agawam acquired from Bow Valley Oil & Gas Ltd. certain oil and gas properties and substantial shareholdings in Consolidated Dragon Oils Limited and Victoria Land & Minerals Ltd., which latter company was subsequently wound up. In the same year Scurry-Rainbow Oil (Sask) Ltd. was created by the statutory amalgamation of Farmers Mutual, Freeholders Oil and five other Saskatchewan subsidiaries of the Company. Subsequent to the amalgamation Scurry-Rainbow Oil (Sask) Ltd. acquired from Agawam all of its petroleum and natural gas properties.

In 1965 Plains acquired the assets and undertaking of Consolidated Dragon in consideration of the issue of shares of Plains. Consolidated Dragon subsequently distributed its assets in the course of dissolution. Following this distribution, the Company and its subsidiaries owned 53% of the outstanding shares of Plains.

In 1966 the Company acquired 28% of the outstanding shares of Cascade Molybdenum Mines Ltd. (N.P.L.) and assumed the management of that company which owns and is carrying out exploratory work on a molybdenum deposit in southeastern British Columbia. During the same year the Company acquired 41% of the outstanding shares of Barriere Lake Minerals Ltd. (N.P.L.) which owns mining claims in British Columbia of unproven value.

Subsidiary Companies

The Company's major subsidiaries are Scurry-Rainbow Oil (Sask) Ltd. which is 94.5% owned and Plains Petroleum Limited which is 50.7% owned.

Business

The Company is engaged in the business of exploring for, developing and producing petroleum and natural gas and of exploring for and developing various minerals. At the present time operations are conducted mainly in the provinces of British Columbia, Alberta, Saskatchewan and Manitoba.

As at March 22, 1968 the Company had 88 employees. Independent contractors are engaged by the Company for geophysical, seismic and survey work. Seismic reports and interpretations are checked by the Company's geological staff.

Petroleum and Natural Gas Properties

Definitions

For the purposes of the following description of the petroleum and natural gas properties of the Company and its subsidiaries:

- (a) "Company" includes the Company and its subsidiaries;
- (b) one gross acre represents an acre in which the Company has any interest;
- (c) one gross well represents a well in which the Company has any interest, including all wells operated under unit agreements;
- (d) one net working interest acre represents the full working interest ownership in one acre, or the ownership of fractional working interests in more than one acre aggregating the equivalent of the full working interest ownership in one acre;
- (e) one net working interest well represents the full working interest ownership in one well, or the ownership of fractional working interests in several wells aggregating the equivalent of the full working interest ownership in one well;
- (f) one net royalty interest acre represents the right to the equivalent of one-eighth of the oil and gas production from one acre of land, without deduction for development or operating expenses; and
- (g) one net royalty interest well represents the right to the equivalent of one-eighth of the production from one well, without deduction for development or operating expenses.

The properties of the Company are dealt with in the following four categories, all of which with the exception of royalties are sometimes referred to as "working interests":

- (1) "leases", under which the lessee has the right to explore for and recover petroleum and natural gas from the property, with the lessee paying all development and operating costs and being entitled to the production subject to a reserved royalty (usually one-eighth);
- (2) "reservations, licences and permits", which are rights to explore lands and obtain leases covering petroleum and natural gas with respect to all or part thereof;
- (3) "mineral titles", which are undivided interests, by way of ownership or long-term lease, in minerals within described property, subject to no rent or reserved royalty; and
- (4) "royalties", which are rights to a specified fraction of all petroleum and natural gas produced from wells drilled on described lands without obligation to contribute to development or operating costs.

Oil and Gas Wells

As at January 31, 1968 the Company had varying interests in 4,024 producing oil and gas wells and capped gas wells equivalent to 210.22 net working interest wells and 203.96 net royalty interest wells as follows:

	Alberta	British Columbia	Saskatchewan	Manitoba	Total
Producing Oil Wells					
Unitized.....	1,169	230	1,897	—	3,296
Non-unitized.....	136	29	280	40	485
Total.....	1,305	259	2,177	40	3,781
Producing Gas Wells					
Unitized.....	151	—	—	—	151
Non-unitized.....	14	23	—	—	37
Total.....	165	23	—	—	188
Capped Gas Wells					
Non-unitized.....	37	18	—	—	55
Total gross wells.....	1,507	300	2,177	40	4,024
Net Working Interest Wells					
Producing oil wells.....	44.54	21.90	116.65	8.51	191.60
Producing gas wells.....	6.06	1.93	—	—	7.99
Capped gas wells.....	8.57	2.06	—	—	10.63
Total.....	59.17	25.89	116.65	8.51	210.22
Net Royalty Interest Wells					
Producing oil wells.....	25.23	.03	172.93	.58	198.77
Producing gas wells.....	3.16	.30	—	—	3.46
Capped gas wells.....	1.08	.65	—	—	1.73
Total.....	29.47	.98	172.93	.58	203.96

None of the capped gas wells in which the Company has an interest are significant to it with the exception of 8 gross wells (equivalent to 1.77 net working interest wells) located in the Gold Creek area of Alberta approximately 60 miles from the nearest gas pipeline.

Non-producing Petroleum and Natural Gas Acreage

As at January 31, 1968 the Company had varying interests in 8,963,338 acres of non-producing petroleum and natural gas properties in Canada equivalent to 4,765,466 net working interest acres and 99,884 net royalty interest acres as follows:

	Alberta	British Columbia	Saskatchewan	Manitoba	Arctic Islands	Yukon	Total
Gross Acres							
Leases.....	799,131	542,997	477,273	1,000	—	—	1,820,401
Reservations, licences and permits.....	325,899	9,038	977,468	—	1,601,591	1,906,000	4,819,996
Mineral titles.....	13,510	—	1,745,960	7,597	—	—	1,767,067
Royalties.....	377,156	167,080	7,598	4,040	—	—	555,874
Total.....	1,515,696	719,115	3,208,299	12,637	1,601,591	1,906,000	8,963,338
Net Working Interest Acres							
Leases.....	273,794	53,331	248,224	512	—	—	575,861
Reservations, licences and permits.....	275,979	452	702,016	—	447,237	1,429,500	2,855,184
Mineral titles.....	11,581	—	1,318,841	3,999	—	—	1,334,421
Total.....	561,354	53,783	2,269,081	4,511	447,237	1,429,500	4,765,466
Net Royalty Interest Acres.....	82,241	16,238	1,183	222	—	—	99,884

Scurry-Rainbow (International) Limited, a wholly-owned subsidiary of the Company, has acquired a petroleum and natural gas licence covering approximately 123,500 acres in Turkey. The licence is subject to a 12½% gross royalty payable to the government of Turkey and a gross over-riding royalty of 5%. If a well is not commenced by November 23, 1968 the licence will terminate unless extended by the Petroleum Administration of Turkey which has discretionary authority in this regard. The Company is currently conducting a surface examination of the property.

Exploration and Development Work

The Company intends to continue to explore and further develop its existing petroleum and natural gas properties along with such additional properties as it may from time to time acquire.

Petroleum and Natural Gas Reserves

A report dated March 18, 1968 prepared by J. C. Sproule and Associates Ltd., Geological and Engineering Consultants, 1009 Fourth Avenue S.W., Calgary, Alberta, covering the Company's estimated net proven developed, proven undeveloped, probable and probable additional reserves of crude oil, natural gas liquids, natural gas and sulphur located in the provinces of British Columbia, Alberta, Saskatchewan and Manitoba as at January 31, 1968 shows net reserves (after royalty deductions and adjustments for interests of others) to be as follows:

	Crude oil (barrels)	Natural gas liquids (barrels)	Natural gas (mmcf.)	Sulphur (long tons)
Proven developed reserves.....	23,671,700	2,411,300	121,760	553,640
Proven undeveloped reserves.....	244,400	—	—	—
Probable reserves.....	6,170,000	1,650,000	41,000	175,000
Total proven and probable reserves.....	30,086,100	4,061,300	162,760	728,640
Probable additional reserves.....	47,000,000	5,000,000	180,000	650,000

For the purposes of the foregoing:

- (a) "proven reserves" are considered to be those reserves which, to a high degree of certainty, are recoverable at commercial rates under present depletion methods and current operating conditions, prices and costs;

- (b) "proven developed reserves" are considered to be those proven reserves which will be produced from existing wells or facilities;
- (c) "proven undeveloped reserves" are considered to be those proven reserves which are not recoverable from existing wells or facilities or from those zones in existing wells which have been cased off but which can be recovered through the drilling of additional wells;
- (d) "probable reserves" are considered to be those reserves commercially recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other secondary recovery method or as a result of a more favourable performance of the existing recovery mechanism than that which would be deemed proven at the present time or those reserves which may be reasonably assumed to exist because of geophysical or geological indications and drilling done in regions which contain proven reserves; and
- (e) "probable additional reserves" are those that are expected to be recovered ultimately from all sources not now considered to be relatively assured; from additional secondary recovery operations; from extensions of known reservoirs; from discovery of new pools in presently productive zones; and from zones and structures located both in productive areas and in regionally favourable areas not now known to be productive.

Net Production of Crude Oil

The Company's net production of crude oil (including its interest in the production of others) measured in barrels for the five years and four months ended January 31, 1968 was as follows:

	Four months ended January 31, 1968	Years ended September 30				
		1967	1966	1965	1964	1963
Working Interests						
Alberta.....	139,281	425,040	409,179	455,661	485,358	483,364
British Columbia.....	217,632	590,847	469,657	350,249	174,621	185,764
Saskatchewan.....	326,168	880,524	917,563	669,199	638,454	456,731
Manitoba.....	8,500	22,109	22,447	24,604	28,561	41,886
Total.....	691,581	1,918,520	1,818,846	1,499,713	1,326,994	1,167,745
Royalty Interests						
Alberta.....	11,346	32,599	30,256	37,922	47,788	53,433
Saskatchewan.....	100,333	302,330	284,279	285,869	252,930	277,526
Manitoba.....	1,348	2,438	3,642	3,692	4,443	3,457
Total.....	113,027	337,367	318,177	327,483	305,161	334,416
Total crude oil.....	804,608	2,255,887	2,137,023	1,827,196	1,632,155	1,502,161

Net Production of Natural Gas

The Company's net production of natural gas (including its interest in the production of others) measured in mcf. (1,000 cubic feet) for the five years and four months ended January 31, 1968 was as follows:

	Four months ended January 31, 1968	Years ended September 30				
		1967	1966	1965	1964	1963
Working Interests						
Alberta.....	988,291	2,439,497	2,314,619	2,215,221	2,094,451	855,514
British Columbia.....	53,020	166,591	209,500	272,806	131,295	195,495
Total.....	1,041,311	2,606,088	2,524,119	2,488,027	2,225,746	1,051,009
Royalty Interests						
Alberta.....	218,070	454,560	464,790	317,900	—	—
Total natural gas.....	1,259,381	3,060,648	2,988,909	2,805,927	2,225,746	1,051,009

Drilling Activities

During the five years and four months ended January 31, 1968 the Company drilled, or participated in the drilling of, 611 wells of which 282 were completed as oil wells, 27 were completed as gas wells and 302 were dry and abandoned. The oil completions represented 73.72 net working interest wells and 78.62 net royalty interest wells and the gas completions represented 6.15 net working interest wells. Particulars of these wells are as follows:

	Total	Four months ended January 31, 1968	Years ended September 30				
			1967	1966	1965	1964	1963
Oil Wells							
Alberta.....	32	1	2	9	—	12	8
British Columbia.....	70	—	8	9	17	14	22
Saskatchewan.....	178	6	33	43	45	27	24
Manitoba.....	2	—	—	—	1	—	1
Total.....	282	7	43	61	63	53	55
Gas Wells							
Alberta.....	17	2	4	3	4	3	1
British Columbia.....	10	—	1	1	1	3	4
Total.....	27	2	5	4	5	6	5
Dry and Abandoned							
Alberta.....	62	8	12	5	13	18	6
British Columbia.....	55	2	13	12	11	2	15
Saskatchewan.....	183	13	42	49	23	36	20
Manitoba.....	1	—	—	—	—	—	1
Yukon.....	1	1	—	—	—	—	—
Total.....	302	24	67	66	47	56	42
Total gross wells.....	611	33	115	131	115	115	102
Net Working Interest Wells							
Oil wells.....	73.72	1.00	12.50	11.04	20.24	16.83	12.11
Gas wells.....	6.15	.42	.49	.42	2.20	1.10	1.52
Dry and abandoned.....	67.82	4.77	11.93	22.19	11.95	14.29	2.69
Net Royalty Interest Wells							
Oil wells.....	78.62	4.24	13.95	25.21	15.88	8.21	11.13
Dry and abandoned.....	89.56	9.88	24.41	19.20	10.22	20.80	5.05

Expenditures on Petroleum and Natural Gas Properties

During the five years and four months ended January 31, 1968 the Company has made the following expenditures on its petroleum and natural gas properties:

	Four months ended January 31, 1968	Years ended September 30				
		1967	1966	1965	1964	1963
Amounts expended on drilling and exploration activities.....	\$1,084,279	\$1,740,237	\$1,484,521	\$2,516,714	\$1,325,358	\$1,188,222
Amounts expended for and under leases and other similar interests.....	1,606,621	1,390,030	1,087,363	2,513,476	2,582,164	627,210
Total expenditures.....	\$2,690,900	\$3,130,267	\$2,571,884	\$5,030,190	\$3,907,522	\$1,815,432

Markets

All crude oil produced from wells in which the Company has an interest is marketed at field prices. The average price received by the Company for its crude oil production sold during the fiscal year ended September 30, 1967 was \$2.38 per working interest barrel (before lifting costs) and \$2.53 per royalty barrel and during the four months ended January 31, 1968 was \$2.39 per working interest barrel (before lifting costs) and \$2.57

per royalty barrel. Working interest production is subject to approximately 40¢ per barrel of lifting costs; royalty production is free of this cost.

The Company sells its natural gas pursuant to long-term sales contracts. The average price received for natural gas production sold both during the fiscal year ended September 30, 1967 and during the four months ended January 31, 1968 was 15¢ per mcf. The price received during the fiscal year ended September 30, 1967 from the sale of natural gas liquids averaged \$2.66 per barrel and during the four months ended January 31, 1968 averaged \$2.71 per barrel.

Conditions within the petroleum and natural gas industry are highly competitive and, in addition, the industry itself competes with other industries providing energies and fuels. There is active competition among petroleum and natural gas companies in exploring and developing new sources of petroleum and natural gas in western Canada.

Mining Properties

Potash Reserves

The Company holds under various titles approximately 164,000 acres of mineral reservations or rights in the potash belt of Saskatchewan. According to a report dated March 25, 1968 prepared for the Company by John T. Boyd Company, Mining Engineers and Geologists, Oliver Building, Mellon Square, Pittsburgh, Pennsylvania, drilling on this acreage has indicated roughly 168.4 million tons of recoverable reserves of reasonably assured and probable potash ore grading 28.32% K₂O at depths ranging between 3,399 and 3,533 feet below ground level. These reserves may have significant economic importance in the future if the world demand for potash continues to increase at its historic rate, if the price for potash does not seriously decline and if the Company is able to enter into arrangements for the marketing of potash produced. In the meantime, the Company proposes to keep these potash properties in good standing to the extent that this can be done by paying annual permit fees and rentals.

The Company and a subsidiary have granted leases to three established potash companies covering an additional 13,850 net acres owned by them located within proven ore bodies of the other companies. The Company and its subsidiary are presently receiving annual rentals of approximately \$12,000 pursuant to these leases and commencing in the latter part of 1968 will receive royalty income when the first company begins production. The second company is scheduled to commence production in 1969 and the third company has not yet finalized its plans for bringing its property into production.

For the purposes of the foregoing description of the potash properties of the Company and its subsidiaries:

- (a) "ore" means mineralization that can be mined and treated at a profit; and
- (b) "probable ore", sometimes referred to as indicated ore, means ore which has been delimited on two sides or mineral concentrations of uniform character which have been outlined by a sufficiently large number of diamond drill holes.

Ivy Group Nickel-Copper Prospect

The Ivy Group Nickel-Copper Prospect is located in the La Ronge district near the centre of Saskatchewan about 18 miles north of a public road from La Ronge to Otter Rapids. The Company has constructed a private road from the property to Otter Rapids and the property is approximately 70 miles by road from La Ronge. Prince Albert, the nearest railhead, is 157 miles by road from La Ronge.

The property consists of three claim blocks having a total area of approximately 7,500 acres. C.B.S. 522 which contains approximately 1,294 acres was staked by the Company on September 21, 1965. C.B.S. 574 which contains 3,840 acres was staked by the Company on April 15, 1966. The Company assigned a 20% interest in C.B.S. 522 and C.B.S. 574 to its subsidiary Plains Petroleum Limited in consideration of the latter company releasing the right which it had acquired from the prospector of the properties to a 10% interest in any company formed to develop them. C.B.S. 612 which contains 2,350 acres was purchased by the Company on June 26, 1967 for \$3,000 from Maurice Murtaek of 549 Inglewood Crescent, Chilliwack, British Columbia.

The work requirements to maintain each of the three claim blocks in good standing under The Mineral Resources Act of Saskatchewan amount to \$2.50 per acre per year. Assessment work recorded in 1967 with respect to C.B.S. 522 will maintain it in good standing until September, 1975. Assessment work on C.B.S. 574 and C.B.S. 612, which has been done but is not required to be recorded until July, 1968, will maintain them in good standing until May, 1970.

In 1957 the property was covered by an airborne combined magnetometric and electromagnetic survey conducted by Aeromagnetic Surveys Limited for the Saskatchewan Department of Mineral Resources. Following examination of outcrop samples the Company began staking the property in September, 1965. Following completion of preliminary ground magnetometric and ground electromagnetic surveys 6 angle holes ranging in length from 250 to 600 feet were drilled in January and February, 1966. A more extensive drilling program was commenced a year later and a total of slightly more than 87,000 feet of core has been cut from 104 holes drilled in the period from February, 1967 through March 10, 1968.

Exploration work performed to March 10, 1968 at a cost of approximately \$911,000 has consisted of geological mapping, geophysical surveys and diamond drilling with attendant core logging and assaying. Geophysical surveys consisted of 27.7 line miles of ground magnetometric surveys, 79.5 line miles of ground electromagnetic surveys (75.5 line miles at 200 foot separations and 4 line miles at 300 foot separations) and 7 line miles of induced polarization. An aggregate of 88,817 feet of diamond drilling has been completed in 110 holes. The Company has established a winterized field camp on the property which includes a field engineering office and core storage and processing facilities. No underground work has been done on the property.

Reports on the Ivy Group Nickel-Copper Prospect dated respectively November 15, 1967 and March 15, 1968 have been prepared for the Company by Chapman, Wood & Griswold Ltd., Consulting Mining Engineers and Geologists, 133 East 14th Street, North Vancouver, British Columbia, and are available for inspection at the Ontario Securities Commission. The following is a summary of the conclusions and recommendations contained in the latter report.

The report of November 15, 1968 recommended extension of exploration on the Ivy prospect to a second stage of diamond drilling, with supporting assaying, geological interpretation and geophysical surveys. The objective of this program was to determine in a preliminary way whether there might be an overall potential for a multimillion ton nickel-copper deposit amenable to high tonnage low cost open pit extraction methods, and to further assess the potential for related higher grade deposits at depth recoverable by underground mining. It was stated that minimum open pit reserves required at the then-estimated submarginal grade of approximately 0.32 percent nickel and 0.09 percent copper, with minor amounts of cobalt and silver, would be on the order of 70,000,000 to 100,000,000 tons. It was further stated that if, at a point in time more than halfway through the second stage program, results of investigations should be preponderantly discouraging, the Company should be prepared to curtail the effort.

As at March 10, 1968 the exploration program had, in the opinion of Chapman, Wood & Griswold Ltd., reached a stage requiring re-assessment of the prospect's overall potential. They have now completed such re-assessment and have reached the following conclusions:

- A. Within the area of C.B.S. 522 the potential for existence of a multimillion ton nickel-copper deposit amenable to bulk open pit extraction has been adequately tested; and the results, in their opinion, are not favorable.
- B. The "A" zone (referred to in their prior report as the main target area) has been essentially closed off by drilling and geophysics, and the mineralized body is of insufficient grade and extent to sustain a profitable operation under existing economic conditions. Their preliminary estimate of open pit reserves in the "A" zone, classed as Drill Indicated-Possible, is 4,262,400 tons grading 0.295 percent nickel and 0.081 percent copper.
- C. The potential for higher grade deposits at depth recoverable by underground mining has been tested by drilling below an assumed floor of open pit reserves in the "A" zone, as well as by drilling in the immediate periphery of the "A" zone and on the additional geological-geophysical target zones B, C, E, F and G. Zones D and H have not been tested. While a number of drill hole intercepts in zones A, B and C contain nickel in amounts up to one percent or better, these sections appear as scattered lenses or pods having little or no continuity. In essence it may be said that nickel-copper mineralization at depth below the assumed 500-foot pit floor elevation is characteristically discontinuous. Six blocks of underground reserves have been preliminarily estimated to contain 876,200 tons grading 0.389 percent nickel and 0.093 percent copper. These reserves are classed as Drill Indicated-Possible. Preliminary economic analysis leads to the conclusion that these reserves are not of sufficient grade or extent to constitute an orebody.
- D. In their opinion, the results of all the investigations of the Ivy prospect indicate that the probability of the occurrence of a major nickel-copper orebody must now be regarded as remote. While various geophysical targets have not been thoroughly drilled, it is their belief that the most favorable area from a geologic stand-

point has been adequately tested. It is postulated that this zone represents a highly fractured structure formed at the intersection of strong east-west and northeast-southwest trending linears, and that the structure constitutes the principal access for nickel-copper sulphide mineralization. While electromagnetic surveys have established that strong conductive zones continue away from the main ultrabasic area and along the linear trends, it is their opinion that these anomalies are most probably due to concentrations of pyrite and/or graphite, and not to economic deposits of nickel or copper.

- E. In view of the preponderantly discouraging results of the Ivy exploration program to date, it is their considered recommendation that the program be curtailed at this time.
- F. In the event that the Company's management is not fully satisfied that the extended linear geophysical anomalies have been adequately tested, two further drill holes are suggested.
- G. If neither of the above drill holes encounters truly significant nickel or copper mineralization, the Company would be well advised to discontinue its exploration effort on the Ivy prospect.

Reserves of nickel-copper mineralization within claim block C.B.S. 522 lie principally within an elongate northeast-southwest trending zone as indicated by drilling to date. This area is designated zone "A". The nickel-copper mineralization is classed as Drill Indicated-Possible which means mineralized rock lying within the general northeast-southwest trend of the "A" zone, as indicated by core assays from diamond drill hole, the limits of reserve blocks contained therein being governed by the following controls:

- (a) exterior limits along the periphery of the mineralized trend are not more than 60 feet beyond assay values in vertical drill holes, and do not extend beyond assay values in angle holes;
- (b) internal limits both laterally along the mineralized trend and in cross section are either the half distance between adjacent or projected drill hole assay values; or a distance derived from geologic information, but in no event greater than 90 feet beyond drill hole assay values.

Reserves are divided into two types: open pit and underground. Open pit material is that lying above an assumed pit floor level of 500 feet in vertical depth and within approximate tentative pit walls at 45 degree ultimate slope. Underground materials is that lying below the assumed pit floor.

The Company intends to drill the two further holes suggested by Chapman, Wood & Griswold Ltd. in their report dated March 15, 1968.

Sulphur Deposits

The Company has acquired exploration rights on a sulphur deposit in Bolivia and is currently carrying out a drilling program in order to determine the size and grade of the deposit. Preliminary process studies have also been commenced to determine the feasibility of producing refined sulphur from this deposit.

Miscellaneous Properties

The Company owns its office building in Calgary and 624 acres of undeveloped land adjacent to the City of Edmonton and the Company and its subsidiaries hold certain mining rights of unknown value on a total of 308,332 gross acres equivalent to 84,326 net acres of land in British Columbia, Saskatchewan, Manitoba, Nova Scotia and the Northwest Territories.

In addition the Company owns large coking and steam coal reserves located in the Crowsnest Pass area of southwestern Alberta and southeastern British Columbia on which it intends to carry out a preliminary exploration program.

Use of Proceeds

The net proceeds to be received by the Company from the sale of the \$20,000,000 principal amount of ●% Convertible Subordinated Debentures amounting to \$19,400,000, less expenses of issue estimated not to exceed \$65,000, will be used in part to repay bank indebtedness which at March 22, 1968 amounted to \$15,065,000. All such bank indebtedness was incurred prior to March 22, 1966 except for \$1,500,000 which was incurred on September 29, 1967 to improve the Company's working capital position, \$1,500,000 which was incurred on

December 1, 1967 to finance the acquisition of certain producing oil properties and \$500,000 which was incurred on January 17, 1968 to provide additional working capital.

The balance of the net proceeds will be used to carry on the Company's continually evolving program of acquisition, exploration and development of oil, gas and mineral properties. It is not the Company's intention to segregate the proceeds from funds now on hand or from future income and accordingly there is no specific allocation of the proceeds to any particular project. As and when, in the opinion of the management of the Company, expenditures are required to explore or further develop the Company's properties or to acquire additional properties the co-mingled funds of the Company from all sources including the proceeds will be used for such purposes. Until so used the Company's funds will be invested in the best interests of the Company as determined by its management.

Capitalization

Security	Amount authorized or to be authorized	Amount outstanding January 31, 1968	Amount outstanding March 22, 1968	Amount to be outstanding on completion of financing
Share Capital of the Company				
Shares having a par value of \$3.50 each.....	7,500,000 shs.(1)	2,459,292 shs.	2,459,292 shs.	2,459,292 shs.
Long Term Debt of the Company				
Secured bank loan (2).....	—	\$13,425,000	\$13,165,000	Nil
5% mortgage due January 1, 1970 and repayable at the rate of \$3,750 per quarter (3).....	—	\$ 30,000	\$ 30,000	\$ 30,000
• % Convertible Subordinated Debentures due May 1, 1988.....	\$20,000,000	—	—	\$20,000,000
Long Term Debt of Subsidiaries				
Secured bank loan of Scurry-Rainbow Oil (Sask) Ltd. (2).....	—	\$ 2,000,000	\$ 1,900,000	Nil
Minority Interests in Subsidiaries				
Common shares and surplus.....	—	\$ 2,765,095	\$ 2,765,095	\$ 2,765,095

(1) Includes a maximum of • shares reserved for issuance on conversion of the • % Convertible Subordinated Debentures due May 1, 1988.

(2) Secured under section 82 of the Bank Act.

(3) Secured on the Company's office building in Calgary, Alberta.

Plan of Distribution

The • % Convertible Subordinated Debentures offered by this prospectus are being purchased by Dominion Securities Corporation Limited (herein sometimes called "Dominion Securities") as underwriter under an agreement dated April •, 1968 between the Company and Dominion Securities at the price of 97% of the principal amount thereof and accrued interest, if any, payable in cash against delivery, subject to compliance with the necessary legal formalities and upon and subject to the terms and conditions set out in the agreement. In certain circumstances, as fully described in the agreement, Dominion Securities has the right to withdraw from its obligation to purchase the Debentures but in no event may it purchase part only of the Debentures.

Debentures

The • % Convertible Subordinated Debentures (herein sometimes called the "Debentures") are to be issued under a Trust Indenture to be dated as of May 1, 1968 (herein sometimes called the "Indenture") between the Company and Guaranty Trust Company of Canada, as Trustee (herein sometimes called the "Trustee"). The Debentures will, in the opinion of counsel, be direct obligations of the Company but will not be secured by any mortgage or charge.

The Debentures will be dated May 1, 1968, will bear interest at the rate of $\bullet\%$ per annum accruing from such date, payable semi-annually on May 1 and November 1 in each year, and will mature on May 1, 1988. The Debentures will be available in coupon form, with provision for registration as to principal, in the denomination of \$1,000 and in fully registered form in denominations of \$1,000 and integral multiples thereof. Principal, half-yearly interest and premium, if any, will be payable in lawful money of Canada at any branch, at the option of the holder, in Canada of the chartered bank to be designated in the Debentures. Interest on fully registered Debentures will be payable (except on maturity or on redemption when interest may be paid on surrender thereof) by cheque mailed to the registered holders of Debentures.

Redemption and Purchase

The Debentures are to be redeemable at the option of the Company for other than sinking fund purposes at any time as a whole or from time to time in part on not less than 30 days' notice at the principal amount thereof together with unpaid interest accrued thereon to the redemption date and the premium (if any) specified hereunder:

<u>If redeemed in the twelve-month period beginning May 1</u>	<u>Premium (per cent of principal amount)</u>	<u>If redeemed in the twelve-month period beginning May 1</u>	<u>Premium (per cent of principal amount)</u>
1968		1978	
1969		1979	
1970		1980	
1971		1981	
1972		1982	
1973		1983	
1974		1984	
1975		1985	
1976		1986	
1977		1987	

The Debentures are to be redeemable through the operation of the sinking fund at the principal amount thereof together with unpaid interest thereon accrued to the redemption date.

The Company will have the right, at any time and from time to time, to purchase Debentures in the open market or by tender or private contract at any price not exceeding the redemption price thereof, applicable at the time of purchase for other than sinking fund purposes, plus costs of purchase.

Sinking Fund

The Indenture will require the Company to establish a sinking fund to retire by redemption at the sinking fund redemption price on November 1 in each of the years 1973 to 1987 inclusive, \$1,067,000 principal amount of Debentures. The Company may, at its option, receive credit against its sinking fund obligations for the principal amount of (a) Debentures acquired by the Company and surrendered for cancellation, (b) Debentures redeemed or called for redemption (otherwise than through the operation of the sinking fund) and (c) converted Debentures. In the event any Debentures are converted after having been called for redemption for the sinking fund, the Company may elect to apply the sinking fund moneys in respect thereof to the redemption of additional Debentures at the sinking fund redemption price.

Conversion

The Debentures will be convertible into shares of the capital stock of the Company having a par value of \$3.50 each (herein sometimes called the "Shares") at the principal offices of the Trustee in Calgary, Toronto and Montreal, at any time before May 1, 1978, at the rate of \$ $\bullet$ per share, except that such privilege will terminate at the close of business on the last business day prior to any redemption date as to Debentures called for redemption on such date. To protect against dilution, the conversion price will be subject to adjustment in certain cases, including the issuance of Shares at a price below the conversion price, subdivisions and consolidations of outstanding Shares, the issuance of options and warrants to purchase Shares and of securi-

ties exchangeable for or convertible into Shares and a recapitalization, amalgamation, merger or consolidation. No such adjustment will be required to be made in respect of Shares issued under stock options now outstanding or hereafter granted to officers or employees of the Company or a subsidiary of the Company, provided that the price payable for such Shares under any such option hereafter granted is not less than 95% of the last sale price for the Shares on The Toronto Stock Exchange on the last business day preceding the date when the option is granted. No adjustment in respect of interest on the Debentures or dividends on the Shares will be made upon conversion of the Debentures. No fractional shares will be issued upon conversion but, at the option from time to time of the Company, an adjustment in cash may be made based on the last sale price of the Shares on The Toronto Stock Exchange on the date of conversion or scrip in lieu of fractional shares may be issued.

Subordination

The payment of the principal of and interest and premium, if any, on the Debentures will be subordinated in right of payment to the prior payment in full of all Senior Indebtedness, whether outstanding on the date of the Indenture or thereafter incurred. By reason of such subordination, in the event of insolvency, creditors of the Company (other than holders of Senior Indebtedness or of the Debentures) may recover less, ratably, than holders of Senior Indebtedness, and may recover more, ratably, than holders of the Debentures.

Senior Indebtedness will comprise the principal of and interest and premium, if any, on (a) indebtedness, other than indebtedness evidenced by the Debentures, for money borrowed by the Company or for money borrowed by others for the payment of which the Company is responsible or liable, (b) indebtedness created, incurred, assumed or guaranteed by the Company in connection with the acquisition by it or by others of any businesses, properties or other assets, and (c) renewals, extensions and refundings of any such indebtedness, unless in any of the cases specified in (a), (b) or (c) above it is provided by the terms of the instrument creating or evidencing such indebtedness that such indebtedness or such incurring, assumption or guarantee thereof is not superior in right of payment to the Debentures.

Upon any distribution of the assets of the Company on or in connection with any partial or total liquidation or any reorganization or insolvency of the Company, the holders of all Senior Indebtedness will be entitled to receive payment in full before the holders of the Debentures are entitled to receive any payment. Notwithstanding the subordination provisions, (a) the Company may at any time, except during the pendency of any such liquidation, reorganization or insolvency and except when any Senior Indebtedness is in default (subject, however, to the right to complete purchases or redemptions of Debentures initiated before such default), make payments of principal and interest and premium, if any, on the Debentures and (b) the Trustee may apply any moneys deposited with it to the payment of the principal of and interest and premium, if any, on the Debentures.

Dividend Restrictions

The Indenture will prohibit certain distributions (including, among other things, the payment of cash dividends or other distributions on any shares of any class of the Company or the purchase or redemption of any such shares by the Company or by a Subsidiary (to be defined in the Indenture) but excluding fixed cumulative dividends and certain purchase or sinking fund payments on preference shares of the Company) if upon giving effect thereto the aggregate of such distributions subsequent to January 31, 1968 shall exceed the algebraic sum of (a) the amount of, or deficit in, Consolidated Net Earnings (to be defined in the Indenture) earned subsequent to January 31, 1968, (b) the consideration received from the sale of shares of any class of the Company after January 31, 1968, and (c) the consideration received from the sale after January 31, 1968 of any indebtedness (including the Debentures) which has subsequently been converted into shares of any class of the Company. The foregoing restriction will not apply to the retirement of any shares of any class of the Company by exchange for, or out of the proceeds of a substantially concurrent sale of, other of its shares.

Shares

The Shares have a par value of \$3.50 each. The board of directors out of any assets legally available for the purpose may declare dividends on an equal per-share basis in such amounts as in their discretion they shall determine. The holders of the Shares are entitled at all meetings of shareholders to one vote for each Share held with respect to all matters upon which a shareholder requests a poll, in which case votes may be cast in person or

by proxy. Unless a poll is requested, a resolution may be voted upon by a show of hands, in which case each person present who is a shareholder or a proxy for a shareholder has one vote. After all obligations of the Company have been paid or provided for, the holders of the Shares are entitled upon liquidation to receive their pro rata portions of the remaining assets. The Shares carry no conversion or pre-emptive rights, are not subject to any redemption or sinking fund provisions, and are not liable to any further calls or assessments after payment of their issue price.

The Articles of Association of the Company provide that two shareholders personally present and entitled to vote holding or representing by proxy at least 25% of the issued Shares shall be a quorum.

Market Price

The Shares have been listed in the United States on the American Stock Exchange since 1954 and in Canada on The Toronto Stock Exchange since 1964 and on the Vancouver Stock Exchange since April, 1967. The American Stock Exchange is the most active market for the Shares.

The following table sets out the high and low sale price in United States dollars for the Shares on the American Stock Exchange for each of the years 1963 to 1967 inclusive and for 1968 to March 22:

	1968 (1)	1967	1966	1965	1964	1963
	\$	\$	\$	\$	\$	\$
High.....	48 $\frac{7}{8}$	51 $\frac{7}{8}$	31 $\frac{3}{8}$	24 $\frac{1}{4}$	18 $\frac{1}{2}$	19 $\frac{5}{8}$
Low.....	28 $\frac{1}{8}$	18 $\frac{1}{8}$	13 $\frac{3}{8}$	14 $\frac{1}{2}$	11 $\frac{3}{4}$	9 $\frac{1}{4}$

(1) To March 22.

The last sale of the Shares on March 22, 1968 on the American Stock Exchange was at \$29 $\frac{3}{8}$ (U.S.).

The following table sets out the high and low sale price in Canadian dollars for the Shares on The Toronto Stock Exchange for each of the years 1964 to 1967 inclusive and for 1968 to March 22:

	1968 (1)	1967	1966	1965	1964
	\$	\$	\$	\$	\$
High.....	52 $\frac{1}{8}$	55 $\frac{1}{8}$	33 $\frac{3}{4}$	26	19 $\frac{1}{8}$
Low.....	30 $\frac{5}{8}$	19 $\frac{3}{4}$	14 $\frac{7}{8}$	15 $\frac{3}{4}$	13 $\frac{3}{8}$

(1) To March 22.

The last sale of the Shares on March 22, 1968 on The Toronto Stock Exchange was at \$31 $\frac{1}{4}$ (Can.).

Since listing on the Vancouver Stock Exchange trading in the Shares to March 22, 1968 has ranged from a low of \$29 $\frac{1}{4}$ to a high of \$50 $\frac{1}{8}$.

Cash Flow

The cash flow of the Company and its subsidiaries set out in the Consolidated Statement of Earnings included in this prospectus is set forth below for the five years and four months ended January 31, 1968:

Period Covered	Cash Flow	
	Total Amount	Per Share (1)
Four months ended January 31		
1968.....	\$1,350,482	\$.55
1967.....	1,128,286	.54
Years ended September 30		
1967.....	3,956,889	1.88
1966.....	3,433,135	1.70
1965.....	2,942,803	1.49
1964.....	2,640,500	1.38
1963.....	2,297,680	1.21

(1) Based on the average number of shares outstanding during each period.

Annual Interest Requirements

Maximum annual interest requirements on the Debentures will amount to \$ ● . The Consolidated Statement of Earnings included in this prospectus shows that the cash flow from operations before deducting interest on long term debt amounted to \$5,029,010 for the year ended September 30, 1967 or approximately ● times the said maximum annual interest requirements.

Management

Directors and Officers

<u>Name and Address</u>	<u>Office</u>	<u>Principal Occupation</u>
Frank Elijah Taplin, M.B.E. 55 Armour Road, Princeton, New Jersey	Chairman of the Board, President, Director and Member of Executive Committee	Chairman of the Board and President, Scurry-Rainbow Oil Limited, Director, North American Coal Corporation and other corporations.
Peter Abt 1235 Bel-Aire Drive, Calgary, Alberta	Executive Vice-President, Director and Member of Executive Committee	Executive Vice-President, Scurry-Rainbow Oil Limited
Ole Bardahl 8525-32nd Street, N.W., Seattle, Washington	Director	President, Bardahl Manufacturing Corporation and Bardahl International Corporation
John Francis Langston 1622 Scotland Street, Calgary, Alberta	Director	Director, Scurry-Rainbow Oil Limited
Peter Mackenzie 21 Wilton Road, Pointe Claire, Quebec	Director	Director, Dominion Securities Corporation Limited
Henry Neil Mallon 2710 Farmers Branch Lane, Farmers Branch, Texas	Director and Member of Executive Committee	Member, Executive Committee, Dresser Industries, Inc.
John Scrimgeour 283 Ridgewood Avenue, Glen Ridge, New Jersey	Director	Securities Dealer, Carr Securities Corp.
Vernon Frank Taylor, Jr. 6900 West Lakeridge Road, Denver, Colorado	Director and Chairman of Executive Committee	President, Westhoma Oil Company Director, International Minerals & Chemical Corporation and other corporations
Francis Cleary Finn 4248 Britannia Drive, Calgary, Alberta	Vice-President	Vice-President, Scurry-Rainbow Oil Limited
Maclean Everett Jones, Q.C. Anderson Road at 14th Street, Sub Post Office 43, Calgary, Alberta	Secretary	Partner, Chambers, Saucier, Jones, Peacock, Black, Gain & Stratton
Eugene Harry Charko, C.A. 394 Capri Crescent, Calgary, Alberta	Treasurer and Assistant Secretary	Treasurer and Assistant Secretary, Scurry-Rainbow Oil Limited

John Scrimgeour was a partner of J. K. Rice Jr. & Co., a securities firm, for more than two years before becoming a securities dealer with Carr Securities Corp. in September, 1964, which position he has held since that date. Francis Cleary Finn was Vice-President of Prudential Steel Ltd. from August, 1966 to March, 1968

when he became Vice-President of the Company and was Vice-President and Director of North Canadian Oils Limited for more than four years prior to August, 1966. During the five years preceding the date hereof the other directors and officers of the Company have been affiliated with the Company or the firms or companies set out above under the heading "Principal Occupation" and prior to September, 1964 John Francis Langston was also managing director of Denton-Spencer Company Ltd., an oil well service company.

Remuneration

The aggregate direct remuneration paid by the Company to its directors and senior officers, as a group, was \$192,931 for the Company's last completed financial year ended September 30, 1967 and was \$131,835 for the period October 1, 1967 to March 31, 1968. The estimated amount of such remuneration for the Company's current financial year ending September 30, 1968 is \$202,380.

The estimated amount of the aggregate annual benefits proposed to be paid upon retirement under the Company's pension plan to the directors and senior officers of the Company as a group, assuming continuation of employment at present rates of salary until normal retirement dates, is \$64,327.

Shareholdings

The percentage of shares of the Company and of its subsidiaries beneficially owned, directly or indirectly, by all directors and senior officers of the Company, as a group, at March 22, 1968 was as follows:

Class of Shares	Percentage of Class
Scurry-Rainbow Oil Limited shares having a par value of \$3.50 each.	10.25%
Plains Petroleum Limited shares of no par value.	.89%

Interests in Transactions

On January 10, 1966 Dominion Securities received an underwriting discount of \$225,000 on the sale by the Company of \$7,500,000 principal amount of its 6¼% Convertible Subordinated Debentures due December 15, 1985. Peter Mackenzie, who is a director of the Company, was on January 10, 1966 and still is a director of Dominion Securities.

Material Contracts

A copy of the underwriting agreement with Dominion Securities referred to under the heading "Plan of Distribution" and a copy, when executed, of the Trust Indenture to be dated as of May 1, 1968 relating to the Debentures may be inspected at the head office of the Company during ordinary business hours during the period of primary distribution of the Debentures offered by this prospectus and for a period of 30 days thereafter.

Auditors

The Company's auditors are Price Waterhouse & Co., Chartered Accountants, 600 6th Avenue S.W., Calgary, Alberta.

Transfer Agent and Registrar

Guaranty Trust Company of Canada at its principal office in Calgary is the registrar and at its principal offices in Calgary, Toronto, Montreal and Vancouver is the transfer agent for the shares of the Company. The Canadian Bank of Commerce Trust Company is transfer agent for said shares at its principal office in New York City.

Registers upon which the ● % Convertible Subordinated Debentures offered by this prospectus can be registered and on which transfers can be recorded will be maintained by Guaranty Trust Company of Canada at its principal offices in Calgary, Toronto and Montreal.

Purchasers' Statutory Rights of Withdrawal and Rescission

The Securities Act, 1966 (Ontario), The Securities Act, 1967 (Saskatchewan) and The Securities Act, 1967 (Alberta) provide, in effect, that where a security is offered to the public in the course of primary distribution:

- (a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent; and
- (b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

The Securities Act, 1967 (British Columbia) provides, in effect, that a purchaser has a right of rescission similar to that described in (b) above, and also that a purchaser has the right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.

Reference is made to the said Acts for the complete text of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

Scurry-Rainbow Oil Limited
and Subsidiary Companies

Consolidated Statement of Earnings and Retained Earnings

	Four months ended January 31,	
	1968	1967
Sales, less royalties.....	\$2,011,633	\$1,664,342 20
Royalty income.....	302,687	294,160 +
Claims awarded for oil drainage and production income.....	<u>2,314,320</u>	<u>1,958,502</u>
Dividend—Minerals Ltd., 50% owned.....	—	—
Investment and other income.....	67,506	108,914
	<u>2,381,826</u>	<u>2,067,416</u>
Production expenses.....	483,838	368,285
Administrative and general expenses.....	232,220	161,365
Interest on long term debt.....	315,286	409,480
	<u>1,031,344</u>	<u>939,130</u>
Cash flow from operations.....	1,350,482	1,128,286 19
Profit on sale of capital assets.....	—	—
Profit (loss) on sale of investments.....	—	—
	<u>1,350,482</u>	<u>1,128,286</u>
Depletion and depreciation (Note 4).....	816,448	735,202
Dry holes and abandoned oil and gas properties (Note 4).....	—	—
Mining properties abandoned.....	—	12,637
Amortization of deferred charges.....	4,174	12,576
Other charges.....	—	—
Minority interests in net earnings of subsidiaries.....	13,704	13,736
	<u>834,326</u>	<u>774,151</u>
Net earnings for the period (Note 7).....	516,156	354,135
Retained earnings at beginning of period.....	8,849,414	7,421,229
Retained earnings at end of period.....	<u><u>\$9,365,570</u></u>	<u><u>\$7,775,364</u></u>

The accompanying notes are an integral part of the financial statements.

Scurry-Rainbow Oil Limited
and Subsidiary Companies

Consolidated Statement of Earnings and Retained Earnings

Year ended September 30,

<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>
\$5,453,966	\$4,930,110	\$4,213,304	\$3,706,215	\$3,030,936
885,194	839,731	778,774	756,838	814,496
—	—	109,148	125,156	74,300
100,000	100,000	—	150,000	—
222,428	348,632	83,755	125,008	90,992
<u>6,661,588</u>	<u>6,218,473</u>	<u>5,184,981</u>	<u>4,863,217</u>	<u>4,010,724</u>
1,136,767	1,174,540	903,626	815,233	611,198
495,811	437,628	565,939	776,747	665,437
1,072,121	1,173,170	772,613	630,737	436,409
<u>2,704,699</u>	<u>2,785,338</u>	<u>2,242,178</u>	<u>2,222,717</u>	<u>1,713,044</u>
3,956,889	3,433,135	2,942,803	2,640,500	2,297,680
—	—	—	134,003	—
—	47,240	(57,797)	22,317	(18,207)
<u>3,956,889</u>	<u>3,480,375</u>	<u>2,885,006</u>	<u>2,796,820</u>	<u>2,279,473</u>
2,395,932	1,832,145	1,442,549	1,056,431	850,990
—	—	—	404,651	359,725
55,300	21,355	36,243	44,401	9,436
35,939	71,519	34,684	57,185	2,838
—	37,500	—	—	(6,519)
41,533	38,797	45,661	55,521	23,028
<u>2,528,704</u>	<u>2,001,316</u>	<u>1,559,137</u>	<u>1,618,189</u>	<u>1,239,498</u>
1,428,185	1,479,059	1,325,869	1,178,631	1,039,975
7,421,229	5,942,170	4,616,301	3,437,670	2,397,695
<u>\$8,849,414</u>	<u>\$7,421,229</u>	<u>\$5,942,170</u>	<u>\$4,616,301</u>	<u>\$3,437,670</u>

The accompanying notes are an integral part of the financial statements.

Scurry-Rainbow Oil Limited
and Subsidiary Companies

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
January 31, 1968

The pro forma consolidated balance sheet gives effect at January 31, 1968 to the proposed issue and sale of \$20,000,000 principal amount of • % Convertible Subordinated Debentures due May 1, 1988 for \$19,400,000 cash, the payment of estimated issue expenses of \$65,000, the repayment of the bank loans of \$15,425,000 and the addition of the balance of the net proceeds to the general funds of the Company.

ASSETS

	Balance Sheet	Pro Forma Balance Sheet
Current Assets:		
Cash.....	\$ 3,701,327	\$ 7,611,327
Government bonds, at cost.....	49,894	49,894
Accounts receivable.....	1,198,157	1,198,157
Inventory of materials and supplies, at cost.....	91,000	91,000
Prepaid expenses.....	74,357	74,357
	5,114,735	9,024,735
Investments and Other Assets:		
Investments, at cost—(Note 3)		
Shares of Minerals Ltd., 50% owned.....	2,211,830	2,211,830
Shares of associated companies.....	1,507,359	1,507,359
Securities of other companies.....	698,102	698,102
Deposits and advances.....	492,984	492,984
	4,910,275	4,910,275
Capital Assets, at cost: (Note 4)		
Petroleum and natural gas and other mineral interests (Note 2).....	46,608,474	46,608,474
Less—Accumulated depletion.....	(10,753,622)	(10,753,622)
Mining properties, non-producing.....	3,314,282	3,314,282
Production equipment.....	6,164,902	6,164,902
Land.....	1,320,985	1,320,985
Buildings and other equipment.....	952,138	952,138
Less—Accumulated depreciation.....	(2,779,009)	(2,779,009)
	44,828,150	44,828,150
Deferred Charges:		
Organization and share issue expense.....	259,583	259,583
Debenture discount and expense.....	—	665,000
Other charges, less amortization.....	112,574	112,574
	372,157	1,037,157
	\$55,225,317	\$59,800,317

The accompanying notes are an integral part of the financial statements.

Scurry-Rainbow Oil Limited
and Subsidiary Companies

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
January 31, 1968

LIABILITIES

	Balance Sheet	Pro Forma Balance Sheet
Current Liabilities:		
Accounts payable and accrued charges.....	\$ 1,376,287	\$ 1,376,287
Long term debt due within one year.....	2,175,000	15,000
	3,551,287	1,391,287
Long Term Debt:		
Bank loans at current rate of interest (secured), repayable \$180,000 per month	15,425,000	—
5% Mortgage due January 1, 1970, repayable \$3,750 per quarter.....	30,000	30,000
●% Convertible subordinated debentures due May 1, 1988 (Note 5).....	—	20,000,000
	15,455,000	20,030,000
Less—Amounts due within one year.....	2,175,000	15,000
	13,280,000	20,015,000
Minority Interests in Subsidiary Companies	2,765,095	2,765,095
Shareholders' Equity: (Note 6)		
Share capital—		
Authorized—7,500,000 shares of a par value of \$3.50 each		
Issued—2,459,292 shares.....	8,607,522	8,607,522
Contributed surplus.....	17,655,843	17,655,843
Retained earnings.....	9,365,570	9,365,570
	35,628,935	35,628,935
Approved on Behalf of the Board:		
Frank E. Taplin, Director		
Vernon Taylor Jr., Director		
	\$55,225,317	\$59,800,317

The accompanying notes are an integral part of the financial statements.

Scurry-Rainbow Oil Limited
and Subsidiary Companies

Consolidated Statement of Contributed Surplus

	Four months ended January 31,		Year ended September 30,				
	1968	1967	1967	1966	1965	1964	1963
Contributed surplus at beginning of period.....	\$16,756,219	\$12,102,411	\$12,102,411	\$10,801,759	\$10,675,079	\$10,674,700	\$10,207,394
Premium on issue of shares in excess of par value.....	718,125	—	4,855,875	1,346,903	126,680	900	472,177
Unamortized debenture discount and expense applicable to debentures converted into shares.....	(21,351)	—	(202,067)	(46,251)	—	—	—
Profit (loss) on disposal of Company shares held by subsidiaries, after minority interests	202,850	—	—	—	—	(521)	(4,871)
Contributed surplus at end of period.....	<u>\$17,655,843</u>	<u>\$12,102,411</u>	<u>\$16,756,219</u>	<u>\$12,102,411</u>	<u>\$10,801,759</u>	<u>\$10,675,079</u>	<u>\$10,674,700</u>

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all subsidiary companies and, in the case of subsidiaries acquired since October 1, 1962, the consolidated statement of earnings and retained earnings reflects the operating results of such subsidiaries from their effective dates of acquisition. The major subsidiaries are Scurry-Rainbow Oil (Sask) Ltd., 94.5% owned at January 31, 1968, which was created on October 1, 1964 by the statutory amalgamation of seven subsidiaries acquired in 1957 and Plains Petroleum Limited, 50.7% owned at January 31, 1968, which was acquired on June 5, 1963.

2. COST OF SHARES OF SUBSIDIARIES:

The excess of the cost of the shares of subsidiaries over their underlying book value at dates of acquisition, amounting to \$3,245,235, has been applied to petroleum and natural gas and other mineral interests and additional depletion of \$511,396 has been provided thereon.

3. INVESTMENTS:

The shares of Minerals Ltd. have no quoted market value. The Company's investment in the shares of Minerals Ltd. exceeds the underlying book value of those shares by \$1,917,304 at December 31, 1967 (date of last fiscal year end of Minerals Ltd.) which represents the following:

The excess of the cost of the shares over their underlying book value at date of acquisition, such amount being attributable by appraisal to the petroleum and natural gas and other mineral interests of Minerals Ltd..... \$1,973,606

The Company's share of the undistributed earnings of Minerals Ltd. from the date of acquisition to December 31, 1967 as follows:

	Share of earnings	Dividends received
1963.....	\$ 73,763	\$ —
1964.....	68,506	150,000
1965.....	111,662	—
1966.....	81,601	100,000
1967.....	70,770	100,000
Total.....	<u>\$406,302</u>	<u>\$350,000</u>
		<u>56,302</u>
		<u>\$1,917,304</u>

The investment in shares of associated companies represents a 28% and 41% interest respectively in the capital stock of Cascade Molybdenum Mines Ltd. (N.P.L.) and Barriere Lake Minerals Ltd. (N.P.L.), companies which are in the exploratory and preliminary development stage.

Securities of other companies, consisting of shares and debentures, have no quoted market value with the exception of shares costing \$86,668 which had a quoted market value of \$80,063 at January 31, 1968.

4. ACCOUNTING PRACTICES:

(a) Change in accounting practices—

Prior to October 1, 1964 the companies followed the practice of expensing dry hole costs as incurred, writing off the cost of properties surrendered, and recording profits and losses on properties sold. Property acquisition costs, carrying charges on non-producing properties, geological and geophysical expenses and producing well costs were capitalized. Depletion of producing properties was provided by the unit of production method applied on a field basis. Depreciation of production equipment was provided at appropriate rates by the diminishing balance method. Effective October 1, 1964 the full cost method of accounting for petroleum and natural gas and other mineral interests, as described below, was adopted and had the effect of increasing net earnings by \$440,325 for the 1965 fiscal year.

(b) Petroleum and natural gas and other mineral interests—

Under the full cost method of accounting all costs incurred by the companies for the exploration and development of oil and gas reserves and other mineral reserves within the same properties, including exploration overhead, are capitalized whether productive or unproductive and proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion is computed on the total of all such costs by the unit of production method based on the total estimated reserves of oil, gas and other saleable products, including from October 1, 1966 potash reserves which are situated within potash ore bodies being developed by other companies. Depreciation of production equipment is computed on related reserves in a similar manner.

(c) Mining properties, non-producing—

The costs of mining properties, consisting of potash permits, coal properties and other mining claims, include prospecting, exploration and preliminary development expenditures, all of which are capitalized on an area basis. Abandoned mining properties are written off when all properties in the area are surrendered.

5. LONG TERM DEBT:

The • % convertible subordinated debentures due May 1, 1988 will be convertible into shares of the Company at any time before May 1, 1978 at \$ • per share, such conversion price being subject to adjustment in specified circumstances. The Company will be required to provide a sinking fund sufficient to retire \$1,067,000 principal amount of debentures on November 1 in each of the years 1973 to 1987 inclusive.

The consolidated earnings available for payment of interest on the obligations of the Company (consisting of the cash flow of the Company before interest plus the Company's share of the net earnings of its subsidiaries) were as follows:

Year ended September 30,

1963.....	\$2,085,865
1964.....	2,300,200
1965.....	2,393,079
1966.....	2,957,435
1967.....	3,815,079

Four months ended January 31,

1967.....	1,126,189
1968.....	1,318,932

6. SHAREHOLDERS' EQUITY:

Shares of the Company have been issued during the period from October 1, 1962 to January 31, 1968 for a consideration other than cash as follows:

	Number of shares	Total consideration
Upon conversion of 6¼% convertible subordinated debentures due December 15, 1985.....	375,000	\$7,500,000
As part consideration for shares of Minerals Ltd.....	16,743	259,516
In exchange for shares of subsidiary companies.....	37,732	396,186
	<u>429,475</u>	<u>\$8,155,702</u>

Initially, • shares will be reserved for issuance upon conversion of the • % convertible subordinated debentures due May 1, 1988.

The Trust Indenture relating to the • % convertible subordinated debentures due May 1, 1988 will contain certain dividend restrictions providing essentially that dividends may be paid only to the extent of consolidated net earnings accumulated subsequent to January 31, 1968 and the net consideration received from the issue of the Company's shares after January 31, 1968.

7. INCOME TAXES:

Under Canadian income tax law, oil and gas drilling and exploration expenses, including costs of leases, permits and reservations, all of which are capitalized in the companies' accounts and subsequently amortized, are deducted in computing income as incurred, or, if such expenditures exceed the income for the year, the excess is carried forward and applied as income becomes available. Exploration expenses on mining properties are deductible on the same basis. For the periods covered by the earnings statement such deductions exceeded income and therefore no provisions for income taxes were required.

Under the deferred tax accounting concept whereby provision for income taxes is also made on the excess of allowances claimed over the recorded depreciation, depletion and other deductions charged against earnings, the companies' provisions for income taxes and the resulting net earnings would have been as follows:

	Provision for income taxes	Resulting net earnings
Year ended September 30,		
1963.....	\$497,000	\$553,975
1964.....	501,000	697,631
1965.....	652,000	697,869
1966.....	634,000	867,059
1967.....	699,000	748,184
Four months ended January 31,		
1967.....	214,000	147,135
1968.....	271,000	306,156

The income tax returns of the Company and its subsidiaries have been reviewed by the Department of National Revenue up to and including the year 1965 and there are no known tax liabilities outstanding. At January 31, 1968 unclaimed drilling and exploration expenditures and undepreciated capital cost of production equipment and other depreciable assets for tax purposes amounted to approximately \$13,500,000 and \$5,500,000 respectively.

Auditors' Report

To the Directors,

SCURRY-RAINBOW OIL LIMITED:

We have examined the consolidated balance sheet and pro forma consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at January 31, 1968 and the consolidated statements of earnings and retained earnings and contributed surplus for the five years and four months ended on that date and the four months ended January 31, 1967. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

- (a) the consolidated balance sheet and consolidated statements of earnings and retained earnings and contributed surplus present fairly the financial position of the companies as at January 31, 1968 and the results of their operations for the five years and four months ended on that date and the four months ended January 31, 1967; and
- (b) the pro forma consolidated balance sheet presents fairly the financial position of the companies as at January 31, 1968 after giving effect as at that date to the transactions described in the head note to the consolidated balance sheets;

all in accordance with generally accepted accounting principles applied on a consistent basis except for the change (with which we concur) in accounting for petroleum and natural gas and other mineral interests as explained in Note 4 to the financial statements.

Calgary, Alberta
April 9, 1968

Chartered Accountants.

Certificates

Dated: April 2, 1968

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by the Quebec Securities Act and by section 13 of the Securities Act (New Brunswick), and there is no further material information applicable other than in the financial statements or reports where required or exigible.

(Signed) Frank E. Taplin
Chief Executive Officer

(Signed) E. H. Charko
Chief Financial Officer

On behalf of the Board

(Signed) Peter Abt

(Signed) J. F. Langston

Underwriter

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by the Quebec Securities Act and by section 13 of the Securities Act (New Brunswick), and there is no further material information applicable other than in the financial statements or reports where required or exigible. In respect of matters which are not within our knowledge we have relied upon the accuracy and adequacy of the foregoing.

DOMINION SECURITIES CORPORATION LIMITED

By: (Signed) Frank H. Logan

The following includes the names of every person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Dominion Securities Corporation Limited: D. H. Ward, S. E. Nixon, N. D. Young, J. G. K. Strathy, A. I. Matheson, J. H. Davie, W. E. Parker, T. P. N. Jaffray, P. Mackenzie.

AR49

FOR IMMEDIATE RELEASE
(Wednesday, May 15, 1968)

CALGARY, ALBERTA: -- Scurry-Rainbow Oil Limited announced today the results of operations for the first half of its 1968 fiscal year.

	Six months ended March 31		Increase
	1968	1967	
Net production			
Crude oil - barrels per day	6,565	5,845	12%
Natural gas - mcf per day	10,175	8,780	16%
Net sales of oil and gas	\$ 3,428,000	\$ 2,932,000	17%
Cash flow from operations	2,089,000	1,677,000	25%
per share	.86	.80	7%
Net earnings after all charges	834,000	517,000	61%
per share	\$.34	\$.25	36%
Average shares outstanding	2,443,316	2,092,887	17%

The net earnings previously reported for the six months ended March 31, 1967 have been revised to reflect year-end depletion and depreciation adjustments applicable to that six-month period.

Scurry-Rainbow Oil Limited
539 Eighth Avenue S.W.
Calgary, Alberta

